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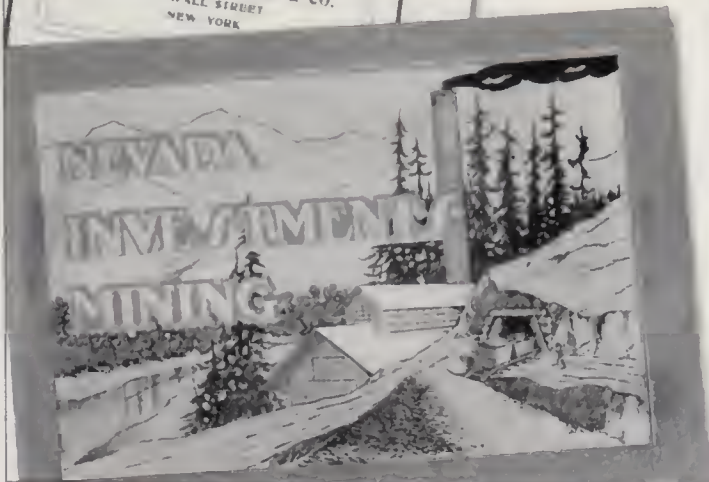
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FINANCIAL HISTORY

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“It is not our affluence that grips the imagination of others, it is the values upon which our system is built. When we depart from these values, we do so at our peril.”

—U.S. Senator J. William Fulbright (1961)

ONE OF OUR FAVORITE OBSERVERS of the economic scene conjectured at a Museum program last November that the generous public-mindedness we saw on Wall Street in the immediate aftermath of September 11 might go far to bolster the sagging reputation of American business and the capital markets. How quickly was that momentary, optimistic outlook entirely overtaken by calamitous news out of the business sector.

The months leading up to the physical attack on lower Manhattan had witnessed the explosive charge that some of the big financial houses were skewing advice to investors. If 9-11 briefly distracted us from these criticisms, today, the shock value of these allegations pales alongside the havoc wreaked by more recent developments. Escalating charges of conflict and corruption, of insider trading and accounting fraud, have made their way up the chain of command to the front offices of some of the country's best-known companies—and to the feet of some of America's best-known businessmen and women. The market is reeling, consumer confidence is down, and Americans want to know whether they can keep faith in institutions.

The situation is not entirely unlike the mood of the nation in the wake of the 1987 market collapse, which stunned investors and sent ripple effects through the economy. The Museum got its start in direct response to the need back then for an independent platform able to provide historical context and objective interpretation. We are getting those calls again now—from Museum members, journalists, researchers, and from government agencies in Washington, all searching for meaning and understanding between the lines of today's business headlines. They recognize that in the gallery, in our speakers programs, and here in *Financial History* we have illuminated the controversial tactics of the Robber Barons, the origins and watchdog responsibility of the SEC and the stabilizing role of the Fed, and the long-term health of the market. It is enormously gratifying to me, as I hope it is to you as a member, that today the Museum—still unique in the nation—can help meet the public's need for answers with a 15-year track record under its belt.

John E. Herzog

Founder's Letter

By John E. Herzog,
Chair



Message to Members

By Brian C. Thompson, Executive Director

WITH COSTS RISING and competition increasing, many museums are challenged to go to great lengths when it comes to staying in front of donors.

At a science museum near the Great Lakes, the private curator's tour for top givers has given way to all-night sleepovers before the opening of new exhibits. (Just imagine awakening in the Hall of Reptiles at morning feeding time!) An institution here in the city keeps its researchers on call to staff a perpetually incomplete demonstration project during donor walk-throughs—not unlike the old FBI building in Washington where for decades, the same well-worn suspended carpet was beaten by club-wielding agents to shake loose “fiber evidence” for VIP visitors. Major benefactors of an aquarium in Louisiana recently got the scare of their lives when a rickety steel catwalk collapsed during a behind-the-scenes tour, collectively plunging the top tier of the donor roll feet first into the shark tank. For several terrifying minutes, as contributors were plucked from the icy water, aquarium keepers feared that the violent commotion on the surface would incite the sharks to bite. Thank goodness no one was injured.

We haven't been quite so aggressive in diving for donors, but that's about to change. By now you are accustomed to reading in these pages how the Museum of American Financial History is being called upon to meet a rapidly growing demand. We know it will take more to do it: more volunteers, more staff, more programs in the gallery, more presence in our community and beyond. And more money.

We are thrilled that Jenny Hirschowitz has joined our able, streamlined staff as the Museum's first full-time Development Director. Jenny holds a law degree and comes to us from the Museum of the City of New York, where she supervised the major gifts program. She impressed us with her strong enthusiasm for building purposeful community ties. Her first and foremost task will be to help us continually remind all of you who have contributed to our growth during our first 15 years of just how important and productive your support has been. As we go forward, she will play a key role in broadening the Museum's financial base—building new support relationships, and managing donor services. As we work to give greater recognition to our con-



Honorary Trustee Peter Quick, American Stock Exchange president, at a recent donor reception hosted by Board member Marty Zweig.

tributors in the magazine, on the web, and in the gallery, that vital support is helping us do meaningful work on a bigger scale. We are deeply grateful, and encouraged to do more.

As a Museum member, I hope you will stop to say “hello” to Jenny and call on any of us here during your next visit. We'd love to see you. And we don't bite. **FH**

The Museum would like to thank these members for their generous recent gifts:

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The Museum thanks all contributors, old and new, for their continued support. To learn how you or your organization can participate in the Museum's program, educational, and service mission, please call Jenny Hirschowitz at 212-908-4519.

Museum To Display Top Dollars in "High Notes"

Former U.S. Treasurer to curate exhibit of high denomination currency

By Meg Ventrudo, Assistant Director
for Exhibits and Education

ON OCTOBER 1, 2002, the Museum will unveil an exhibition of high denomination currency guest curated by former Treasurer of the United States Mary Ellen Withrow. "High Notes" will be the first public exhibition to showcase rare high denomination bills from the Smithsonian Institution's National Numismatic Collection, including a \$100,000 gold certificate from 1934 that was used to transfer funds between the Federal Reserve Banks and a 1934 series \$10,000 gold certificate. Presently, the largest U.S. note in circulation is the \$100 bill. Larger notes—in denominations of \$500, \$1,000, \$5,000, \$10,000, and \$100,000—were eliminated in 1969 due to declining demand.

The exhibit will also feature several examples of inflationary currency from around the world, most of which resulted from wars and unstable economic policies. Historically, the most famous example is German currency from the era between the first and second world wars. Illustrations of the time depict people exchanging wheelbarrows of reichsmarks for a loaf of bread. In some cases, new denominations were printed over the existing currencies to save the expense of starting from scratch. Examples of international inflationary money, such as a note for 300,000,000 German reichsmarks from 1923 and a modern-day 10,000,000 Turkish lira note, will also be on display.

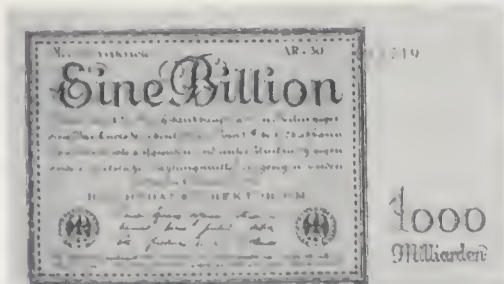
Withrow will lead a curator's tour of "High Notes" on October 16 at



This \$100,000 gold certificate, issued in 1934, will be displayed in "High Notes."



Collection of Mark D. Tomasko



4 P.M. in the Museum gallery, which members and their guests are invited to attend. During her tenure as U.S. Treasurer, Withrow's signature appeared on more currency than that of any of her predecessors. She also holds the distinction of being the only person to hold the treasurer position at the city, state, and national levels.

"High Notes" will be on display through February 28, 2003. **FH**

Examples of international inflationary currency. Clockwise from top left:
10 million Hungarian pengó;
500 billion Yugoslavian dinara;
one million Nicaraguan cordobas;
and one trillion German reichsmarks
("billion" in German translates
to "trillion" in English).

Smithsonian Institution, National Numismatic Collection,
Douglas Mudd photographer

Gold Rushes and Campfire Songs

Wells Fargo exhibit and events bring the Wild West to Wall Street

By Kristin Aguilera, Editor

THE MUSEUM'S SUMMER EXHIBIT, "Born in New York," traced Wells Fargo's history back 150 years to its founding just a few blocks from the Museum at 16 Wall Street. Many visitors were surprised to learn of the company's place of origin, as most assumed it was founded out West where Wells Fargo branches dominate the banking landscape. Others were more intrigued by the fact that the company's founders, Henry Wells and William Fargo, also founded the American Express Company two years to the day earlier at the same location.

The exhibit also provided a learning experience for the Museum's summer

interns, who greeted gallery visitors with stories of Wells Fargo's role in the country's westward expansion and assisted in the creation of exhibit-related educational materials. Museum intern Erica Borgese, a senior at Loyola College in Maryland, mounted an exhibit sidebar on Wells Fargo's survival through the San Francisco earthquake of 1906, a story of endurance that is especially poignant since September 11, 2001.

For the Museum's members, especially those who reside in New York, the exhibit and its associated events provided the flavor of the West without having to venture outside the city.

Members toured the Federal Reserve Bank of New York's gold vaults, participated in a campfire sing-along with their children aboard the ship *Peking* at the South Street Seaport, and listened to a lecture by Wells Fargo's chief historian, Andy Anderson, on his new book, *Stagecoach: Wells Fargo and the American West*.

"Born in New York" will be on display through September 14. Members are invited to join assistant director Meg Ventrudo at noon that day in the Museum's gallery for the final exhibit-themed event, "Pioneering Business: Lessons and Reflections from Wells Fargo's History." **FH**



Top: Dr. Andy Anderson, Wells Fargo's chief historian, gives a talk on his new book, *Stagecoach*.

Right: Folk singer Michael Power leads children and their parents in a campfire sing-along aboard the *Peking* ship at the South Street Seaport. The program brought the western theme of the Wells Fargo exhibit to a wider audience.



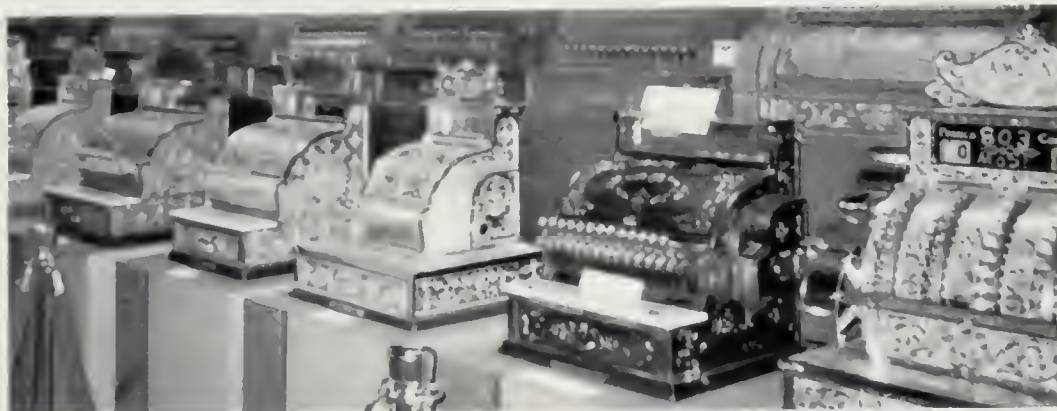
Museum intern Erica Borgese, a history major at Loyola College in Maryland, prepares a case for the Wells Fargo exhibit.

Museum to Showcase Early Method of Financial Accountability

By Kristin Aguilera, Editor

WHEN JOHN H. PATTERSON purchased controlling interest in a failing cash register company and incorporated the National Cash Register Company (NCR) in 1884, his goal was to abolish the haphazard methods of accounting that were the standard of the time. Under Patterson's leadership, NCR revolutionized daily financial transactions and minimized human error by incorporating into its registers paper-roll recording devices, keys, and pop-up numbers indicating sale amounts.

The Museum will display several examples of these early registers and photographs of the machines in use from the 1880s through the 1960s alongside the "High Notes" exhibit from October 1, 2002 through February 28, 2003. Assistant director Meg Ventrudo recently selected the registers to be included in the display from the extensive NCR archive at the Montgomery County Historical Soci-



The Montgomery County Historical Society's NCR archive. Three of the Society's five floors are dedicated to the NCR collection.

ety in Dayton, OH. Highlights include a 1911 Empire style brass register designed by Tiffany & Co. and a register circa the 1920s denominated in reichsmarks, demonstrating the company's international reach.

NCR has since evolved along with financial technology and currently develops and services a wide range of data processing and telecommunications systems, including ATMs. **FH**



Assistant director Meg Ventrudo with newly-elected Trustee George M. Jones, III at the Toledo Art Museum in Ohio on Ventrudo's recent trip to select NCR cash registers from the Montgomery County Historical Society for the upcoming exhibit.

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Will the Recording Industry Turn a Deaf Ear ... Again?

By Brian Grinder & Dan Cooper

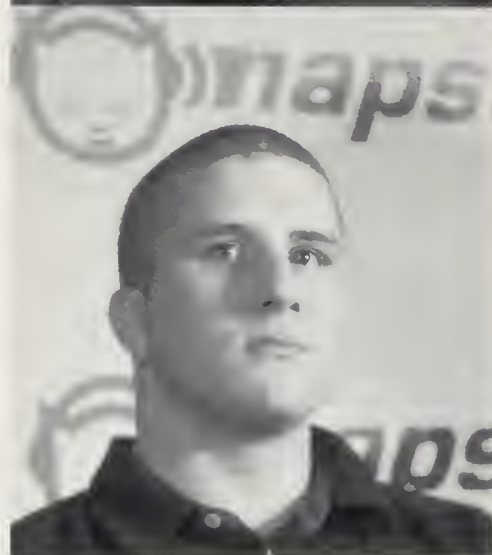
LATE IN THE EVENING OF DECEMBER 4, 1877, Thomas A. Edison yelled a phrase from a children's nursery rhyme into a small funnel-shaped mouthpiece while he turned the crank on a crude metal device. The small machine, built from Edison's drawing by a machinist named John Kruesi, was certainly uninspiring in appearance. It consisted of a hand crank attached to a threaded horizontal cylinder with two small funnel-like devices mounted perpendicular to the cylinder. The little metal contraption seemed so unlikely to succeed that Kruesi and another observer each bet Edison that the experiment would fail.¹

The air pressure of Edison's voice caused a flexible diaphragm similar to the head of a drum to move a sharp stylus against a rotating sheet of metal foil, creating small indentations in the foil. The foil was wrapped around a metal cylinder, and as Edison turned the crank, the vibrations from his voice were captured in a spiral pattern around the cylinder. Edison's assistant, Charles Batchelor, then lifted the mouthpiece and diaphragm off the foil and rewound the cylinder by turning the crank in the opposite direction. He then placed a second stylus with a slightly more rounded point that was also attached to a diaphragm in the grooves created by Edison's voice. Now as he turned the crank, the second stylus rode along the indentations and caused the diaphragm to move in and out.

In the quiet New Jersey night, Edison's voice could clearly be heard reciting, "Mary Had a Little Lamb."² Edison, who was notoriously hard of hearing, thought he had lost the bet until he noticed the thunderstruck expressions of the men around him. None of the men huddled in the gaslight of the dingy little room could have possibly imagined the impact of the invention.

Within two days of generating the first recording, Edison completed a patent application for the invention he called a phonograph or "sound writer" and wrote an article about his new invention for the journal *Scientific American*. A British patent was subsequently granted in 1878. In April of 1878, Edison presented the phonograph to the National Academy of Sciences in Washington, DC. There, as in countless other presentations, the phonograph amazed and astounded its audience. Several girls fainted from the shock of hearing a voice emanate from the machine. Around the country, newspapers and clergy alike suggested that the device was a tool of the devil. (In the past 100 years, no doubt many parents have wondered if this observation was in fact true, as each generation of parent and child has debated the moral value of the younger generation's musical tastes.)

The phonograph enjoyed immediate financial success as a demonstration device. Edison manufactured and leased the device rather than selling it outright, thinking that maintaining control and collecting an annual fee would prove to be the most profitable avenue for exploiting the machine. A company was formed to handle



Top: Thomas Edison examines an early record, September 20, 1916.

Bottom: Napster founder Shawn Fanning, 20, at a press conference on February 12, 2001, a short time after a ruling by the Ninth Circuit Court of Appeals said that Napster, the online music downloading service, must prevent subscribers from sharing copyrighted material.

U.S. Department of the Interior, National Park Service

© Reuters New Media Inc./Corbis



Edison and his colleagues with the perfected phonograph, taken after ~2 hours of work.

distribution of the device, and in a twist of fate, the father-in-law of Edison's chief creative rival of the day, Alexander Graham Bell, became one of Edison's five original stockholders. Independent regional firms were also formed to handle local fulfillment and service. It was to be several years before Edison was forced to abandon the leasing alternative in favor of consumer sales.

Many units were leased to entrepreneurs who made a living traveling around demonstrating and entertaining crowds who paid an admission fee. These self-proclaimed "Professors of Sound" presented a varied program that included comedy, music, and recordings of audience members. For many, the phonograph was the first machine they had ever seen. In this period prior to widespread use of electricity, the telephone, the automobile, and every other modern convenience we now take for granted,

the phonograph was often seen as nothing short of a miracle.

Edison thought the greatest long-term success for the new device was in recording and transcribing the correspondence of politicians and businessmen. He realized, however, that any success would be extremely limited if he couldn't improve on the device itself and the material used for recording. Metal foils gave satisfactory recording results but couldn't be successfully removed from the original machine and replayed on another. Countless experiments over several years allowed Edison and his competitors to develop more satisfactory materials such as wax, ozocerite, celluloid, and vinyl for use in cylinder and disc recordings.

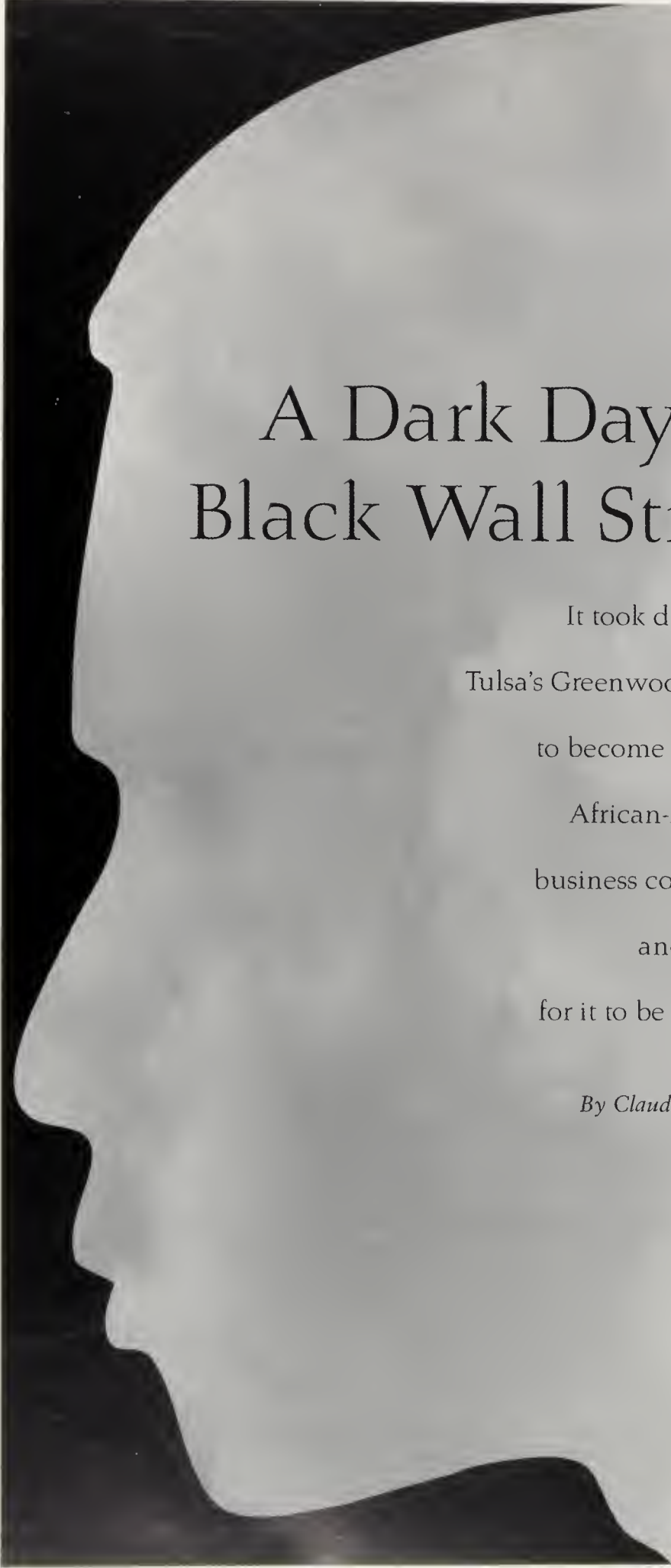
In 1880, Alexander Graham Bell used the proceeds from winning the prestigious Volta prize (approximately \$20,000) to establish the Volta Laboratory in Washington, DC. The Volta

prize was created by Napoleon III in the name of Alexander Volta, the prestigious French scientist, as a way to honor the discoverers of the most important scientific innovations of the day. Bell was awarded the prize by the French Academy of Sciences for his invention of the telephone. Work at the laboratory included refining the telephone and improving Edison's phonograph. The lab's most important contribution to the recording industry was the development of easily removable wax (and later ozocerite) coated cardboard cylinders for recording. This recording method was far superior to the sheets of metallic foils used by Edison.

In 1886, upon issuance of several phonograph (or graphophone, as Bell called his version) patents, the Volta Graphophone Company was organized. As is often the case in a new industry, businesses change in form and name, and the same was true of both the Edison and Graphophone interests. However, by the 1890s, there were essentially two firms that controlled the important recording patents. The Edison Phonograph Company controlled the Edison patents, and a firm organized to market the graphophone called the American (later the Columbia) Graphophone Company represented the Volta Graphophone Company's patents.³ Though these firms became bitter rivals, both understood that each needed the ideas and intellectual property of the other if the industry was to grow and be profitable.

As the 19th century drew to a close, a German immigrant named Emile Berliner was to make another substantial contribution to the fledgling phonograph industry.⁴ Berliner patented the process of recording on flat discs rather than the more fragile, bulky cylinders used by Edison and Bell. Further, Berliner's discs could be

continued on page 36



A Dark Day on Black Wall Street

It took decades for
Tulsa's Greenwood District
to become a thriving
African-American
business community,
and one day
for it to be destroyed

By Claudia La Rocco

WHAT A DIFFERENCE A DAY MAKES.

On the morning of Tuesday, May 31, 1921, Tulsa, Oklahoma's Greenwood District was a lively, prosperous black community, home to a multitude of successful, black-owned businesses. From physicians to barber shops, African-Americans of all classes combined to make "Black Wall Street" one of the premier black economic centers in America.

On the morning of June 1, all of this changed. Where churches and shops once stood, burning piles of rubble now lay. Where crowds of black businessmen had gathered, gun-toting white men—and women—now milled, pillaging houses after rounding up and jailing their occupants—or murdering them in brutal fashion.

By the time the governor declared Martial Law and the Oklahoma National Guard had restored order in the early afternoon, it is estimated that as many as 300 people had lost their lives. More than 1,000 houses had been burned to the ground, and property losses were in the millions. In less than 24 hours, Tulsa's Greenwood District had been ravaged by the worst race riot in American history to date.

As was often the case with acts of white-against-black violence during this period, the immediate cause of the riots was the alleged assault of a young white woman by a black man. However, if a manufactured assault provided the riot's spark, underlying economic tensions between white and black Tulsans formed much of its tinder.

The Greenwood District of north Tulsa, started around 1905, was nationally renowned for its entrepreneurs and businessmen. Some were

from families who had lived in the area for generations, many originally brought as slaves of Native Americans. Others were newcomers who had moved to Oklahoma in the hopes of escaping the rampant racism back East. Lured by promises of land and oil-rich Tulsa's reputation as the "Magic City," they had been confronted by a sadly familiar reality of lynchings, segregation, and white supremacy.

Despite the immense odds stacked against African-Americans, many thrived in Tulsa. In 1921, according to city directories, there were 108 black business establishments, including 41 grocers and meat markets and 30 restaurants; 33 professionals, including 15 physicians and surgeons; 24 skilled crafts persons; and 26 service workers.¹ Greenwood District was home to the vast majority of these businesses and professionals. The lively neighborhood boasted scores of successful African-Americans.

No matter how great their success, of course, entrée into the larger economic sphere was not an option for black Tulsans. Segregation was the rule of the day during these years in America, with both legal and social laws ensuring strict separation of races. With the exception of whites who employed African-Americans for such work as housekeeping, the races existed in virtual isolation. Because white establishments refused to serve black customers, black people generally had to look to themselves for goods, services, and entertainment. The money paid them by white employers was simply not acceptable in white shops and restaurants.

As a result, virtually all of the money generated by Greenwood businesses was certain to end up in other Greenwood businesses. As Hannibal Johnson explains in *Black Wall Street*, "buying black" became more a matter of survival and less a matter of choice for African-Americans. Consequently, providers of goods and services in the Greenwood District held captive an

eager market and tapped into pent up demand."

This demand encompassed everything from lawyers and schools to pool halls and nightclubs. It also included contractors, as the more successful black entrepreneurs began building some of the finest homes in Tulsa. With no accessible outlets, the money pooled in Greenwood. Everywhere one looked, opportunities for spending money presented themselves.

As Greenwood grew, so did its reputation, attracting more and more ambitious African-Americans. However, as Johnson points out, while many black Tulsans did rise as professionals, the vast majority of them made their living through employment—usually menial—to whites; despite the seeming independence of Greenwood, the livelihood of its citizens was still controlled by their white neighbors.



Still, within these confines, the Greenwood District flourished—and its successes, however circumscribed, did not go unnoticed. Less than a month after the riot, African-American plumber E.A. Loupe explained, "In these years I have noticed a growing racial hate by the lower Whites because of Negro prosperity and independence; also a racial hatred because of Negro rooming house porters, whom they claim associated with the White women in these places. Of this hate Yellow Journalism was mostly responsible in promoting."²

Loupe also noted the "lax law enforcement by both county and city. The lawless element of both races were so arrogant until it was dangerous for the best citizens to make much protest." In the years leading up to the riot, Tulsa was known as a dangerous city with a large criminal element comprised of both blacks and whites. But if the people committing the crimes were of both races, the people policing the city were almost entirely

Caucasian. Many a Tulsan policeman donned an additional uniform from time to time: a long white robe and a conical mask.

Given this, it was hardly surprising that the local police were of little help to the citizens of Greenwood District during the riot. "If we had complete co-operation from the officers of Tulsa they could have prevented all this disaster, and not use the occasion to demoralize our business industries and our nice homes," seethed A.J. Newman on June 24, 1921. "But instead of protection it was seemingly a matter of destroy and abolish all Negro business and nice residences."³

White Tulsans were no longer willing to abide black businessmen who were more prosperous than many of them would ever become. As one Greenwood citizen described it,

After they had the homes vacated one bunch of whites would come in and loot. Even women with shopping bags would come in, open drawers, take every kind of finery from clothing to silverware and jewelry. Men were carrying out the furniture, cursing as they did so, saying, "These [damn] Negroes have better things than lots of white people."⁴

The suspected assault of a white woman had given whites just the opportunity they needed to dismantle Black Wall Street, using brute force where the tactics of economic segregation had failed.



Demolishing African-American businesses and homes didn't do the rioters much good if the owners insisted on rebuilding. While the actual riots were only a day long, the campaign on the part of many white Tulsans to destroy the Greenwood District was much lengthier. Once again, the *Tulsa Tribune* was there to fan the flames. On June 4, 1921, the daily paper ran an editorial entitled "It Must Not

Be Again.” Referring to the neighborhood as “Niggertown,” the article implored its readership to stand up against the rebuilding of Greenwood.

From the newspapers to the (all-white) grand jury called for by Oklahoma’s governor, James B.A. Robertson, almost every level of local white society laid the blame for the riot on black Tulsans, casting them as lawless, “uppity” rabble rousers.⁵ Every effort was made at slander, particularly against those African-

in makeshift internment camps around the city. The only way to escape the camps was by obtaining a city-issued green card signed by a white employer, who typically paid 25¢ an hour. As virtually every business in Tulsa depended upon blue-collar black workers, white employers quickly signed the cards so that the Greenwood citizens were “free” to come to work. Once again, economic forces functioned as double-edged swords in the lives of black Tulsans, ensuring both their

Given the racial climate in America in the early years of the 20th century, it is not surprising that the Greenwood riots occurred; from property destruction to lynching, white-on-black violence was commonplace. What surprises is that many black residents stayed in Tulsa, and rebuilt their homes, businesses, and churches, so that in just a few short years, Black Wall Street would be stronger than ever.

Johnson begins *Black Wall Street* with a telling exchange of letters between two African-American friends following the riot. The first, from a man in Detroit, included \$40 for a train ticket. “Now that they have destroyed your homes, wrecked your schools, churches, and business places, and killed your people,” Curtis writes, “I am sure that the Negroes will rapidly give up the town and move North.”

Oliver, living in Tulsa, agrees with Curtis’ assessment of the damages, but tells his friend that “they have not touched our spirit...I came here and built my fortune with that SPIRIT, I shall reconstruct it here with that SPIRIT, and I expect to live on and die here with it.”

Greenwood District entrepreneurs marshaled their resources and energies, and rebuilt. It was a communal effort, from congregations raising the hundreds of thousands of dollars necessary to rebuild their churches, to law firms such as Spears, Franklin & Chappelle overturning a city fire ordinance that would have made rebuilding impossibly expensive.

By the end of 1922, much of Greenwood had been reconstructed, and the neighborhood was on the verge of an unprecedented period of prosperity—a turn of events that was no doubt particularly galling to those who had gone to such great lengths to put an end to “Niggertown.”

Throughout the 1930s, the Greenwood District prospered. The decade saw a great expansion of black businesses and the achievements of such milestones as the 1938 founding



Black smoke billows from fires during the race riot of 1921 in Tulsa, Oklahoma’s Greenwood District.

Americans who were particularly wealthy or prominent. Indeed, the first of the 27 cases raised by the grand jury (perhaps predictably, none led to conviction) focused on 63 African-Americans. Among the accused were such prominent businessmen as A.J. Smitherman, editor and publisher of the *Tulsa Star*, an influential black paper. The charge leveled against Smitherman and his codefendants? Rioting.

It was in this atmosphere that the city determined to confine many of its African-Americans, imprisoning them

release and their servitude.

Meanwhile, those African-Americans who hadn’t fled or been killed struggled to rebuild. They did so without the help of insurance companies, who cited “riot clauses” that absolved them of their duty to pay for any of the property damages. In fact, with the exception of the extraordinary relief effort carried out by the Red Cross and organizations such as the NAACP, there would be no consistent help from the outside. The Greenwood District was left to face an almost total loss.

of the Greenwood Chamber of Commerce. The explosive need for workers, materials, and goods generated by World War II gave the neighborhood an even greater boost, so that by the early 1940s more than 400 African-American businesses were listed in one business directory. "When Greenwood was in its heyday," one woman remembered, "there were 10 black hotels in the Archer/Greenwood area, numerous drug stores, grocery stores, cleaners, shoe shops, millinery and dress shops, tailor shops, pool halls, theaters, funeral homes, doctors' and lawyers' offices, restaurants, and schools in the area. There were unskilled, semi-skilled, and professional people existing side by side."⁶

This storybook ending, sadly, was not to hold. While Tulsa continued to enjoy economic prosperity after the war's end, the Greenwood District did not. A number of forces contributed to its slow but steady decline. Chief among these, as Johnson points out, were Urban Renewal (a neighborhood "rehabilitation" program which ravaged poor and minority inner-city areas across the country through such practices as leveling city sections in order to build highways) and, ironically, desegregation. As more and more civil rights gains were made, economic markets opened up. White businesses were no longer off-limits for black consumers, who understandably poured their money into these new-found opportunities.

White consumers, however, did not return the favor. As more and more African-Americans and their money flowed out of black neighborhoods, nothing flowed in. This uneven equation decimated once-thriving neighborhoods like the Greenwood District, whose small businesses lacked the resources to weather such

economic sea changes. A 1978 report by Tulsa's Neighborhood Regeneration Project describes the area as a collection of "generally abandoned and underutilized buildings, sitting in a sparse population of poor and elderly black[s] awaiting the relocation counselors of the Urban Renewal program."⁷ Despite the obvious evils of segregation, the practice had, in part, insulated black neighborhoods from free-market forces. The increasing lack of insulation, combined with the horrific effects of Urban Renewal and the harsh business conditions in a society that, though improving, was still highly racist, was too much for Greenwood.



Members of the Greenwood community receive their first meal after the race riots, June 1921.

While the Greenwood District has made some strides since that 1978 report, it bares little resemblance to the neighborhood that earned the Black Wall Street moniker. While it is impossible to predict what future awaits, one thing is certain: If the Greenwood District is to truly flourish once again, the neighborhood so used to surviving on its own will need help from the very outside forces that historically have worked so hard to dismantle it.

This past February, an Oklahoma commission recommended that reparations be paid to riot survivors and

their descendents. In May, the state legislature, officially acknowledging the riot for the first time, passed a bill focused on revitalizing the Greenwood District. The bill includes the establishment of a college scholarship fund for descendants of riot victims. A separate bill set aside \$750,000 for an area memorial, and Medals of Distinction were given to riot survivors. Various business leaders and organizations are looking into ways in which they can aid in rebuilding the neighborhood.

The controversial issue of direct reparations to individuals—particularly at the city level—remains unresolved. FH

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2. Halliburton, Jr., R. *The Tulsa Race War of 1921*. R and E Research Associates: San Francisco, 1975.
3. Ibid.
4. Parrish, May E. Jones. *Events of the Tulsa Disaster* in Johnson, Hannibal B. *Black Wall Street*. Eakin Press: Austin, Texas, 1998.
5. This state of denial has been long-lived. Ellsworth reports in his 1982 history of the riot that white Tulsans still blamed blacks, Mexicans, or "white trash" for the violence, and were quick to describe a massive white relief effort that never happened. Others simply refused to discuss the events. Ironically, some blacks also blamed their race for instigating the riot.
6. Account of Juanita Alexander Lewis Hopkins in Johnson.
7. In *The Oklahoma Eagle*, Nov. 6, 1978, in Johnson.

BIG BUCKS (FOR) BIG BUSINESS



Collection of the Museum of American Financial History

By John C. Burch, Jr. &
Bruce S. Foerster

THE DEVELOPMENT OF underwriting syndicates is a phenomenon of late 19th century America arising out of the need for investment banks to pool their own capital to underwrite the new issue securities being sold to fund the growth of American industry. The railroad, steel, mining, and utility industries all had significant capital requirements.

In the first half of the 19th century, the necessity of raising large sums to finance the young nation's wars produced the earliest examples of underwriting syndicates. In 1813, Albert Gallatin, secretary of the treasury, attempting to finance the war with England, tried to raise \$16 million through a bond issue but received sub-

scriptions for only \$6 million. Thomas Jefferson and his Democratic-Republicans had come to power and had allowed the charter of the Bank of the United States to expire.

As a result, there was no central bank to assist the government with its finances. The English had withdrawn from the U.S. market, and early military defeats did little to inspire investor confidence. Gallatin was forced to go hat-in-hand to Stephen Girard, a wealthy Philadelphia ship owner who had taken over the assets of the Bank of the United States, and beg Girard to underwrite the unsubscribed portion of the bond issue.

Girard, along with John Jacob Astor, a wealthy New York fur trader and real estate investor, and David Parish, who had come to the United States in 1805 as the representative of the London merchant bank, Baring Brothers & Company, acting together in a manner similar to syndicates that would appear later in the century, purchased the bonds with their own and borrowed money and resold them

to business contacts. The underwriting proved enormously profitable because they purchased the remaining \$10 million at 40 cents on the dollar and re-offered them for 82 cents on the dollar, thereby making a profit of \$4.2 million. Most financial historians trace the birth of modern underwriting syndicates to this event. If this is true, then the purchase of Mexican war bonds in 1848 by the Cochran Riggs firm in Washington DC, in alliance with Baring Brothers & Company and other English and American private banks, marks one of the earliest examples of an international syndicate led by an American firm.

The Civil War posed a daunting challenge to President Lincoln's secretary of the treasury, Salmon P. Chase. In 1862, Chase attempted the sale of a \$500 million bond issue that paid six percent interest in gold, matured in 20 years and was callable in five years. Dubbed the "5-20s," the sale did not go well. The English had again withdrawn from the U.S. market,

Above: A syndicate of leading bankers purchased \$50 million of U.S. bonds at a meeting in the private office of August Belmont, Esq. From Frank Leslie's Illustrated Newspaper, 1878.

partially because the Union Navy had intercepted the British vessel, *Trent*, on the high seas and removed Confederate agents. The Union Army had been routed at Manassas, an event that did not inspire investor confidence, and Chase would not accept a discount bid for the bonds similar to that tendered by Girard, Astor, and Parish in 1813. Instead, Chase called on Jay Cooke, a Philadelphia investment banker who had success with an earlier Pennsylvania issue. Cooke, using the telegraph, harnessed

bonds and preserve the fixed price character of the offering—the first known use of “stabilization” in a U.S. new issue offering.

Cook used the lessons he learned to organize the first underwriting for an industrial company. In March 1870, together with seven other firms, he underwrote a \$2 million bond issue for the Pennsylvania Railroad. In this standby underwriting, the firms guaranteed the railroad its money even if the company should fail to sell the securities by a certain date.

Investment bankers found it easier and more profitable to purchase an issue of securities and be responsible for selling it than to provide a guarantee to the issuer should the corporation itself not succeed in marketing the securities. As a result, the earlier standby underwriting syndicate technique was rarely used except when corporations tried to raise additional capital from their existing security holders.

As the 20th century began, a large underwriting syndicate put together the first billion dollar deal, the forma-

No. 1

New York, N.Y. January 26, 1956

PAY TO THE ORDER OF

BLYTH & Co., INC.
THE FIRST BOSTON CORPORATION
GOLDMAN, SACHS & Co.
KUHNS, LOEB & Co.
LEHMAN BROTHERS
MERRILL LYNCH, PIERCE, FENNER & SMITH
WHITE, WELD & Co.
Representatives of Ford Underwriters

The Ford Foundation \$ 642,600,000.00

SIX hundred forty-two million six hundred thousand DOLLARS

TO
THE FIRST NATIONAL CITY BANK OF NEW YORK
HEAD OFFICE
FIFTY-FIVE WALL STREET
NEW YORK, N. Y.

By *Charles A. Blyth*
By *Lawrence V. Kahn*
Authorized Signatures

1956 Ford Motor Company IPO check for \$642,600,000. The transaction involved 722 underwriters and more than 1,000 selling group members.

the efforts of a sales force of nearly 2,500 small town bankers, insurance agents, and real estate brokers in successfully selling \$316 million of the issue on a nationwide basis, introducing in the process a whole new class of Americans to the concept of investing in securities.

Late in the war, Chase called Cooke back to sell an issue dubbed the “7-30s”—7.3 percent notes due in three years. Cooke was responsible for selling \$500 million of the \$800 million issue, the largest in American history up to that time. During the sale, some of Cooke’s agents discounted bonds to sell them more easily, but Cooke organized a stabilization fund to buy up these

Just as importantly, only five of the seven syndicate members were assigned the job of selling any bonds that the railroad had failed to market, thus drawing a distinction between the underwriting (risk bearing) and selling (distributing) tasks.

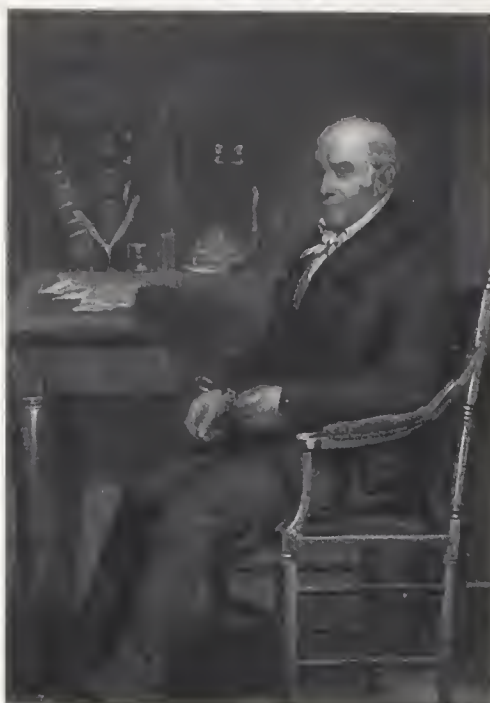
The vast amount of capital required to build railroads and finance the growth of American industry in the late 1800s continually strained the risk-bearing capacity of individual investment banks. Thus, firms more frequently formed syndicates to share the underwriting risk and achieve added distribution. By the last decade of the 19th century, the prestige of certain investment banks exceeded that of most industrial corporations.

tion of U.S. Steel. Led by J.P. Morgan, this syndicate was composed of 300 members in the United States, Great Britain, and the Netherlands, with the aim of organizing a new company, exchanging its securities for those of the constituent companies and supplying new working capital.

Many early underwriting arrangements grew out of personal friendships—for example, in 1906 Henry Goldman of Goldman Sachs prevailed upon his friend Philip Lehman of Lehman Brothers to direct some capital from Lehman’s commodity business to participate in the underwriting of United Cigar Manufacturing—an underwriting that Goldman was unable to take on alone. Later that



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Collection of the Museum of American Financial History

Real estate investor John Jacob Astor (left) and Philadelphia ship owner Stephen Girard (right) financed America's war with England with David Parish in a manner similar to that of modern underwriting syndicates.

year, when Goldman had the opportunity to underwrite the IPO of Sears Roebuck & Co., the firm turned again to Lehman Brothers and continued to do so on a regular basis for other issues until 1924.

Underwriting syndicates had become such an established part of investment banking that Samuel Untermyer, counsel for the House Banking and Currency's Pujo subcommittee, formed in 1912 to investigate "the concentration of money and credit," asserted that syndicates were instruments of the alleged "Money Trust" to stifle competition and exclude rivals. These charges, among others, were popularized by Louis Brandeis in his book *Other People's Money* and became part of popular mythology until dismissed in 1953 by Judge Harold Medina whose stinging opinion rejected all of the government's antitrust allegations contained in its 1947 law suit against 17 of the industry's leading underwriters.

In the period prior to World War I, the originating banker or "house of issue" would purchase an entire issue

of securities directly from the issuer and immediately resell the securities at a "step up" in price to a relatively small number of firms, comprising a "purchase syndicate" which the originating banker would customarily join as manager. A second group, known as the "banking syndicate," would then buy the securities at a further step-up in price. The members of the purchase syndicate would become members of the banking syndicate, and the originating banker would act as manager. The banking syndicate would then distribute the securities to the investing public. There existed an agreement between banks to purchase the securities and to sell them while maintaining a price, called the "public offering price." The various "step-ups" roughly equate to today's management, underwriting, and selling fees.

Following World War I, it became customary to form an additional group called the "selling syndicate." There were three types of these selling syndicates, which were larger and more widely dispersed than the

purchase and banking syndicates had been. The first was the "unlimited liability selling syndicate," or undivided syndicate, that required its members to take up their proportional amount of unsold securities regardless of the amount of securities any individual member had distributed. Subsequently, a second type of syndicate evolved, known as a "limited liability selling syndicate," or divided syndicate, in which a firm that had distributed all of the securities specified by its commitment no longer had liability for any remaining securities undistributed by other underwriters.

From this step evolved the "selling group" in which members relieved themselves of all liability for carrying costs, stabilization expense, and other expenses. When a "selling group" was used, an expanded "banking syndicate" assumed these costs. In all three types of selling syndicates, the members acted as principals. The syndicate agreement specified the fixed price at which the securities were to be sold. The manager traded in the open market during the distribution to maintain the public offering price, and repurchase penalties permitted the manager to cancel any selling concessions due to dealers who had sold the securities repurchased in trading to stabilize the public offering price. The life of the syndicate was 30 to 60 days with a provision for earlier termination or extension, but the period of distribution was typically much shorter. The "market out clause" developed circa 1914-15 and its use were fairly general at an early date.

The Revenue Act of 1932 imposed a federal transfer tax on bonds and increased the transfer tax on stocks. Passage of the Securities Act of 1933 limited the liability of underwriters to the offering price of securities underwritten by it. In reaction to these developments, the old purchase and banking syndicates, with successive

sales at increasing prices, gave way to a new single underwriting syndicate in which each underwriter would severally agree to purchase from the issuer a specified amount of securities. This structure, originally known as a "Western Account" remains in use today. The Securities Act of 1933 and the Securities Exchange Act of 1934 are the foundations on which our capital markets rest. Both acts are based on the British example of full disclosure. Merit review was left to the investor.

In 1941, the SEC adopted Rule U-50, requiring public sealed bids in connection with securities transactions of all companies affected by the Public Utility Holding Company Act of 1935. The traditional managers as early in the process as was possible put bidding accounts or syndicates together. The goal was to put together a strong well-balanced syndicate that had the ability to distribute the securities quickly, but have sufficient capital strength to carry the securities if necessary—the same objectives used in forming a syndicate for a negotiated transaction. A sole manager typified these syndicates, with underwriters in tiered brackets depending on their capital and selling ability. These brackets reflected a firm's status in the industry.

The \$640 million Ford Motor Company IPO in 1956 marked the pinnacle of underwriting syndicates. This transaction, for the benefit of the Ford Foundation, involved 722 underwriters and over 1,000 selling group members and was led by Blyth & Co., Inc.

In 1963, the "over allotment option" was first introduced in an underwriting managed by Paine Webber Jackson & Curtis for The Green Shoe Manufacturing Company. This technique, now popularly known as the "Green Shoe," permits the issuer to grant the underwriters an option, for a specified

period, to purchase up to 15 percent of the original amount of securities for the sole purpose of covering over allotments. By over-allotting securities, the manager creates buying power that can be used to purchase securities in the open market to cover the resulting short position, if it is necessary to stabilize the public offering price. If it is not necessary, the manager may exercise the option or "shoe" and purchase the additional shares at the price paid for the

This Common Stock is being sold to the general public by a group of investment dealers including the undersigned. The offering is made only by means of the official Prospectus.

▶ **170,500 Shares**

The Green Shoe Manufacturing Company

▶ **Common Stock**
\$2.00 Par Value

▶ **Price \$28.50 per Share**

You are invited to ask for a Prospectus describing these shares and the Company's business. Any of the undersigned who can legally offer these shares in compliance with the securities laws of your state will be glad to give you a copy.

Paine, Webber, Jackson & Curtis

The First Boston Corporation	F. S. Moseley & Co.
Blyth & Co., Inc.	Eastman Dillon, Union Securities & Co.
Globe, Fargan & Co.	Goldman, Sachs & Co.
Hornblower & Weeks	Kidder, Peabody & Co.
Stone & Webster Securities Corporation	Smith, Barney & Co.
White, Weld & Co.	Wertheim & Co.
	Dean Witter & Co.
	Estabrook & Co.

February 28, 1963.

1963 tombstone ad for The Green Shoe Manufacturing Company, which introduced the over allotment option. This technique is now known as the "Green Shoe."

original underwritten shares. This technique has almost totally replaced the stabilization practices that date back to Jay Cooke and his "7-30s."

In the 1970s, the tradition of sole managed accounts began to give way. Many observers cite the \$1 billion IBM, two tranche, notes and debentures offering in October 1979 as the pivotal point in the march toward multiple managers. IBM offered the lead position, called the "books," to Morgan Stanley but named Salomon Brothers as co-

manager. Morgan Stanley, accustomed to being sole manager, declined and Salomon Brothers got the books with Merrill Lynch added as a co-manager.

The advent of SEC Rule 415 (Shelf Registration) in March 1982, permitting an issuer to pre-register its financial needs; the adoption of SEC Rule 144A in 1990, permitting the resale of private placements of unregistered securities to "qualified institutional buyers" by providing a safe harbor from the registration and prospectus delivery requirements of the 1933 Act. This, along with the growth of investment banks' capital, particularly among major firms, has helped narrow the syndication process to an all-manager or an all-manager plus one to fewer than 10 underwriters.

In the mid-to-late 1980s, the term "global coordinator" first appeared to reflect the leadership of a multi-tranche, cross-border offering sometimes with different lead managers in each tranche. Subsequently, the terms "co-global coordinator," "co-lead manager," and "co-book runner" appeared reflecting the intense competition between underwriters for lead mandates and the issuer's desire to benefit from this competition. Between 1998 and 2000, an electronic bracket, or e-bracket, temporarily appeared in issues to denote distribution via the Internet. **FH**

John C. Burch, Jr. and Bruce S. Foerster are the authors of The Capital Markets Handbook (3rd edition), from which this article has been adapted.

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A Tale of Two (Thousand) Companies & One Old Shoe

By Andy Anderson



Photographs courtesy of Wells Fargo

“Wells Fargo is not the history of one company but the history of over 2,000 companies across the United States, Canada, and Latin America.”

HOW WELLS FARGO made it through 150 years is one of the great tales in American business history. Frontier legend and national franchise from 1852 to 1918. Conservative, one-horse bank until 1960. Stagecoach image, diversified financial services company, and “most admired” bank in America by 2001. That is the short story of Wells Fargo.

The business behind the Wells Fargo brand is a longer tale of transformation, convergence, and the peculiar American talent for reinvention. It is a flow of people, money, and credit across the plains, rivers, mountains, valleys, towns, and cities of America. At times it moves as slowly as crops grow. Sometimes it whistles like a straight-line wind across the prairie and takes shelter in the glow of home ownership. Sometimes it percolates in the aspirations of small businesses and roars in the machinery of factories and the commotion of stock exchanges. Finally, it pulses in nanoseconds, zings along cables, and bounces off satellites at instantaneous speed over an unpaved superhighway. By the time the business reaches its 150th year,

Wells Fargo is the payments processor, wealth builder, business partner, and home mortgage provider for more than 19 million Americans.

Looking back at it now, the intriguing question is: How did Wells Fargo come back from near extinction early in the 20th century to form a “diversified financial services” powerhouse and global brand?

The answer lies in the billowing cloud of companies behind the Wells Fargo stagecoach. It is a genealogist’s dream (or nightmare). Wells Fargo is not the history of one company but the history of over 2,000 companies across the United States, Canada, and Latin America. The vast majority of the companies were independent community banks stretching from Minnesota to Texas, from Ohio to California, and north to Alaska. They were often among the founders and builders of the towns that became the cities of America.

The companies came in all shapes and sizes: community banks, mortgage companies, consumer finance companies, investments and securities companies, trust companies, insurance companies, realty and financial advisers, agricul-

Left: Henry Wells; Right: William G. Fargo

tural credit organizations, leasing companies, capital management companies, express companies, stagecoach companies, and even a gasworks. Each company had moments of glory, moments of struggle, and, in some cases, a history that was almost as old as Wells Fargo. Some of them—American Trust, Crocker, First Interstate, and Norwest—had equally substantial or even larger franchises. Then one day, through merger, purchase, or acquisition, each adopted the Wells Fargo brand and family tree.

Like a big, old family spanning six generations, Wells Fargo has had all the business equivalents of marriage, birth, adoption, divorce, remarriage, renaming, death, parents, grandparents, in-laws, outlaws, and crazy aunts, uncles, and cousins. Not everyone got along. Sometimes there were bitter feuds. But the family name endured.

In 1918, the federal government virtually erased the Wells Fargo franchise as part of a World War I “consolidation” of express businesses (which were a vital part of America’s transportation and communications network). It took the Great Depression, another world war, major demographic shifts, a century-long price revolution, and movies and television (rekindling America’s love affair with the “Old West”) to bring once again to a national audience the Wells Fargo name, stagecoach, and lingering association with the secure delivery of money.

Unlike the sweeping, global histories of the money-center banks in New York, Wells Fargo’s history is more about the growth and financial interconnections of small-town America in the Midwest, the Rockies, the Southwest, the Pacific Northwest, the Great Basin, and California. The spaces between places were great. The need for capital grew more slowly than it did in more populated eastern industrial centers. But it grew steadily

as cities such as Minneapolis, St. Paul, Omaha, Des Moines, Milwaukee, Houston, Dallas, San Antonio, El Paso, Denver, Salt Lake City, Albuquerque, Phoenix, Las Vegas, Portland, Seattle, San Francisco, San Jose, San Diego, Sacramento, and Los Angeles (population 102,000 in 1900) became food and staples distribution centers, military-government-industrial centers, and eventually high-tech Meccas.

Once people could do business beyond the distance they could ride a horse in a day, settled areas grew like wildfire. Many of the 2,000 companies in Wells Fargo’s history were present when rails, irrigation ditches, tractors and trucks, electrification, and paved highways and runways mechanized the country. Many were present at the creation and development of towns and cities that desperately needed funds for housing, business growth, and urban infrastructure. Many supplied the credit or crop drafts that farmers and food

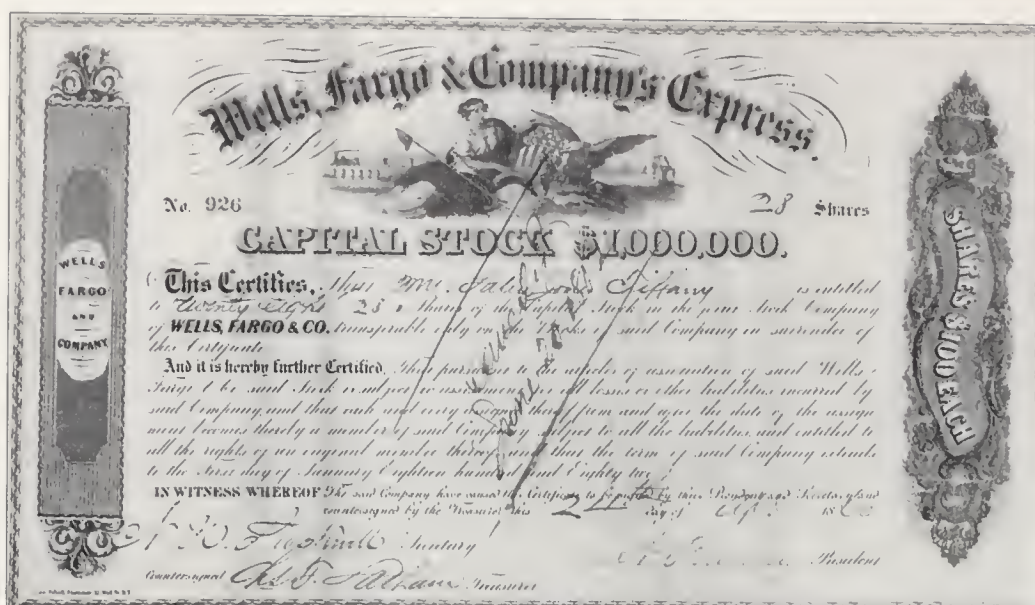
processors used to transform American agriculture into a global producer.

As demand for consumable products and business development funds grew in the western United States, many community banks found their local capital resources limited and their risks increased. Mergers, branch networks (where legally permitted by states), group banks, and correspondent bank networks became solutions to these problems and hallmarks of 20th century banking and finance.

Following the demise of the Wells Fargo express franchise in 1918, the Wells Fargo banking business consisted of exactly one office in San Francisco. It had been separately capitalized in 1905 at \$9.5 million in a deal between Isaias W. Hellman of the Nevada National Bank and financier and railroad magnate Edward H. Harriman (who, at the time, controlled Wells Fargo & Company). It had \$37 million in assets. Except for a 1924 merger with another San



Wells Fargo's diamond sign signaled express wagons to stop for parcels and identified company offices worldwide.



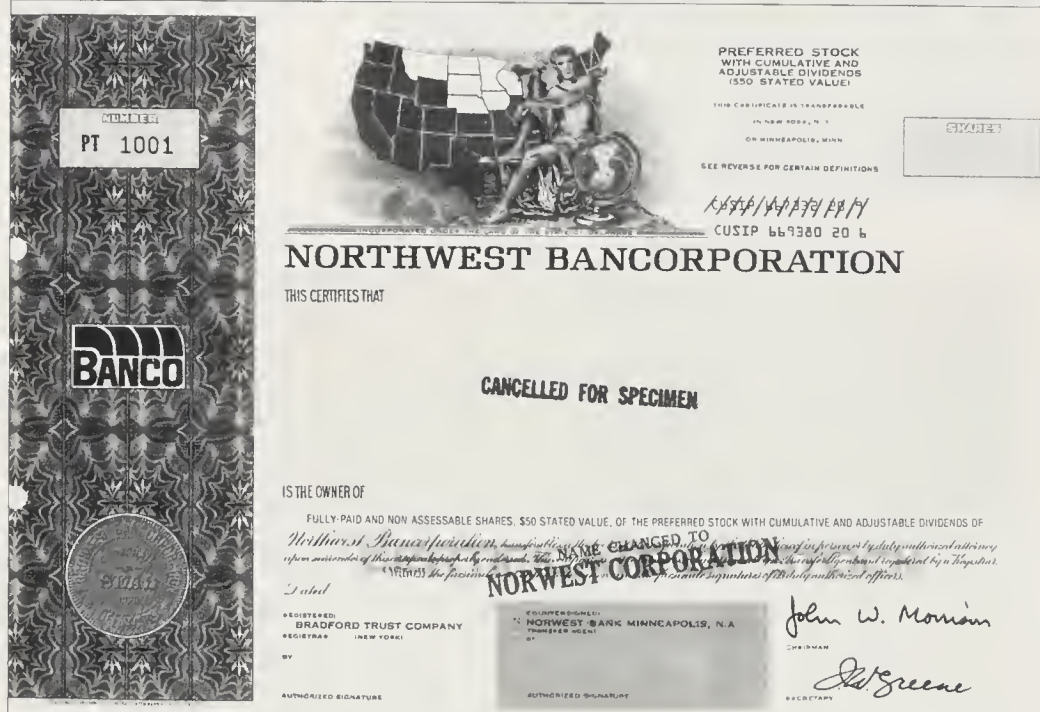
Crocker merger, Wells Fargo entered two other mid-size mergers in 1990 with American National Bank (Bakersfield) and Great American Savings (San Diego).

A merger with First Interstate Bancorp in 1996 doubled Wells Fargo in assets, again, to \$108 billion, extended it across 10 Western states, and added the histories of about 500 additional community banks and financial companies.

Wells Fargo virtually doubled in size, again, in 1998 to \$186 billion in a "merger of equals" with Norwest Corporation of Minneapolis. Norwest took on the older company's name and moved its headquarters to San Francisco. It also brought with it the histories of about 1,000 more banks and financial companies across the Midwest, the Rockies, and the Southwest.

Since then, mergers with the National Bank of Alaska, First Security Corporation (Utah), First Commerce Bancshares (Nebraska), Brenton Banks (Iowa), Michigan Financial, and Prime Bancshares (Texas) have increased the asset base to more than \$300 billion. At this writing, Wells Fargo stands as the fourth-largest bank-holding company nationally, and the largest headquartered west of the Mississippi.

Maybe the most remarkable aspect of Wells Fargo's reemergence as a national business in the 20th century is the map of its current franchise. From Minnesota to Texas, from Nebraska to California, from Ohio and Indiana to Washington and Oregon, and from Canada to Latin America: pick a highway, pick a town, and "Wells Fargo" was probably there in the heyday of its stagecoach and railroad express operations. The map is virtually the same as it was in 1918. Put another way, the bank, which through the first 60 plus years of the company's history was the caboose on the express company's train, has now become the train.



Top: Stock in the Wells Fargo Company, dated 1860.

Bottom: Specimen certificate from Northwest Bankcorporation, one of the institutions that merged into Wells Fargo.

San Francisco financial institution, Union Trust Co., Wells Fargo was not a participant in mergers or branch banking in the first half of the 20th century. It remained a large, unit bank that favored correspondent relationships with other banks. When California's population exploded with World War II and the Korean War, Wells Fargo finally began a series of mergers with small community banks in the San Francisco Bay Area. It entered a big merger in 1960 with American Trust Company, a northern

California retail banking franchise built on the histories of more than 100 community banks, the oldest dating back to 1854. Wells Fargo contributed only 30 percent of the new company's \$2.5 billion in assets, but was the surviving trademark name.

A merger with California-based Crocker Bank in 1986 grew Wells Fargo from \$29 billion to \$48 billion in assets, still mostly concentrated in California, and added the histories of about 250 more community banks and financial companies. After the

From 1905 to 2001, the growth of Wells Fargo's financial business was substantial. The company went from one office to over 5,400; from 80 employees to 120,000; from 3,000 banking customers to over 19 million; from hundreds of transactions a day to millions a day; from \$500,000 net income to \$4.0 billion; from \$37 million in assets to \$300 billion.

In business, especially financial services, success is always expressed numerically, usually in reference to "the bottom line" and the stock price. In the 1980s and 1990s, this was reinforced inside Wells Fargo in the business philosophy of the company's dynamic and demanding chief executive, Carl Reichardt. The message was simple: "Know Your Numbers," and "Run It Like You Own It." As Wells Fargo's chief financial officer at the time, Clyde Ostler, explained, there is a certain assurance in the fact that "the numbers never lie."

The journey toward success, however, is as qualitative as it is quantitative. Like mileage signs along a highway, words join numbers to express direction. The signposts include being in the right market at the right time; exercising management's "visible hand;" navigating the legal and regulatory environment; selecting the right technology; demonstrating speed to market; understanding risk; giving great customer service; competing aggressively on price, product selection, and convenience; having a strong brand; and communicating a vision and values.

As financial services companies have evolved over the past decade, they have depended increasingly on the most qualitative explanation of all, disarmingly captured in 1998 merger partner Norwest's working philosophy: "It's about people." For over a decade, it had been a powerful message delivered by current Wells Fargo (then Norwest) chief Dick Kovacevich and his predecessor, Lloyd Johnson. It was highly persuasive to those who delivered the numbers and



Courtesy of Wells Fargo

"This Old Shoe" passed from agent to agent in the 19th century in search of its mate. It came to symbolize the connection each agent had to a larger network of colleagues, no matter where they lived or worked.

who mattered the most, the employees and the customers. Perhaps there is even a little irony in Norwest's decision to forgo its geographically based name in favor of one based on people, Mr. Wells and Mr. Fargo. Of course, a bright red stagecoach pulled by the quintessential American hero, the rugged individual who can smell trouble a mile away, may have had something to do with the decision to go forward as Wells Fargo. As longtime Norwest senior manager Jim Campbell commented at the time, "It's hard to give a kid a ride on a big green 'N.'"

Usually, the clues about the importance of people in a company's culture lie somewhere in the symbols and traditions of its past. The symbols are often saved, even in the absence of a formal directive, by people who intuitively recognize their value in the same way families seem to know which small pieces of their heritage to pass forward to the next generation. In the case of Wells Fargo, one of the most interesting of these retained symbols captured the sense of belonging and connectivity among far-flung company agents long before there were phones, e-mail, and neutral networks. Oddly enough, it began with an old shoe.

The shoe was a woman's laced, linen half-heel lost, or rather found, in a Wells Fargo office along the Oregon-California border in the mid-1890s. Under what circumstances it was left behind, no one knows for sure. In this outpost of the enterprise, the Wells Fargo agent tied a note to the shoe and sent it on down the line in search of its mate to the next Wells Fargo agent. Unable to make a match, this agent sent it on to the next...who sent it on to the next...who sent it on, and on. Several years and many agents later, "this old shoe" still had no mate. But judging by the notes and verse attached to it with bits of twine, everyone felt pretty good about lending a helping hand to other colleagues and about working for an outfit that tried to make things right. Someone then had the good sense to save the shoe, which still awaits its Cinderella in the Wells Fargo History Museum in Los Angeles. **FH**

Dr. Andy Anderson is the chief historian of Wells Fargo & Company and co-author of Stagecoach: Wells Fargo and the American West, from which this article has been adapted.

Carlson

Launches American Bank Note Into the Space Age



By Mark D. Tomasko



S. Ohrvel Carlson

UNTIL THE MIDDLE OF LAST YEAR, the New York Stock Exchange required an engraved vignette, including a front-view human face, on stock certificates of listed companies. Creating the images for those vignettes has always been a specialized form of art. In the 20th century, only several artists have been successful in this unusual area. And one in particular, A. E. Foringer (1877–1948), was the leading practitioner of the art. His death in 1948 caused American Bank Note Co. (ABN), the leading printer of engraved certificates in America, to search for other artists. A decade later, the company discovered S. Ohrvel Carlson (b. 1911), a talented artist who would help bring the art on stocks and bonds into the age of electronics and space.

By the late 1950s, ABN was in need of new vignettes. Electronics and high technology defense companies were

increasing in number and significance, and Sputnik had awakened the United States to the space age and the need to keep up with the Soviets in rockets and space exploration. The beautiful allegories painted by Foringer, which had set the standard for half a century, now appeared dated. During the 1940s and 50s, ABN experimented with a number of artists, the foremost of whom was Jean Van Noten, a Belgian stamp designer whose vignette artwork for the company was not successful.

Carlson came to the attention of ABN through John Wallace (b. 1923), an apprentice picture engraver at the company in the 1950s.¹ In a meeting of the engravers, Wallace pointed out the problems with the other artwork. Because of his comments, he was charged with trying to find a better artist. He contacted a former teacher in New Jersey for suggestions, and was put in touch with Carlson.



1

Sven Ohrvel Carlson was born in New Jersey and studied at the Newark Art School and the Art Students League in Manhattan with George Bridgman, Frank V. DuMond, and Harvey Dunn, of the Howard Pyle tradition. Because of the Depression, he first ended up as a merchant seaman, before several years as a WPA painter, followed by service with the Army in World War II. Besides being an accomplished artist with pieces in the Vatican contemporary collection and sculpture in the Thomas A. Edison Museum in West Orange, NJ, Carlson is also an outstanding musician, having played the violin with three symphony orchestras as well as jazz orchestras and quartets.

Paintings for bank note vignettes were probably one of the more unusual art commissions that Carlson received. ABN sent him photographs of Foringer paintings to give him an idea of the type of art desired. Carlson first did preliminary sketches, and ABN decided which were to be turned into full size paintings.

The process by which security vignettes are created is not well known. First, the bank note company commissions the artwork, usually from an independent artist. The artwork is almost always monochromatic, and needs good "color," which in this case means good tonal values,

not chromatic color. The figures need to be well proportioned and reasonably attractive. Frequently, the artist will do preliminary sketches, and the bank note company will decide which subjects they want to commission for full size paintings. The bank note company then selects the sketch or sketches they like, and the artist does the full painting.

The bank note company next makes a photo-reduction, which is a black and white photograph of the painting exactly the size to be engraved. This enables the picture engraver to trace the subject on the metal die before actual engraving begins. A picture engraver then engraves the vignette, frequently using both the large painting and the photo-reduction as models. It can take six to eight weeks or more to engrave the type of vignettes shown in this article.

The first of the "space age" or "electronic" paintings that Carlson did for ABN may be seen in Fig. 1. It depicts a man seated in front of electronics gear holding plans in his right hand and a test tube with atom symbols in his left hand. Note in the background the several rockets being launched. The rockets play a larger role in Carlson's subsequent paintings. This vignette, informally known as Carlson-Electronic Series #1, was engraved in 1958 by Kenneth Guy,² one of the best postwar picture engravers at ABN. Fig. 2 shows the first proof of the vignette, where only the figure has been entered, and Fig. 3 shows an intermediate proof, where some of the etched background has been added.³

A finished proof is shown in Fig. 4. This vignette saw considerable use; Fig. 5 illustrates it on the International Telephone and Telegraph stock certificate. Westinghouse Electric, General Telephone and Electronics, Perkin-Elmer, Prime Computer, and others also used the vignette.

With the success of the first painting, another two were commissioned, the first of which was Carlson-



2

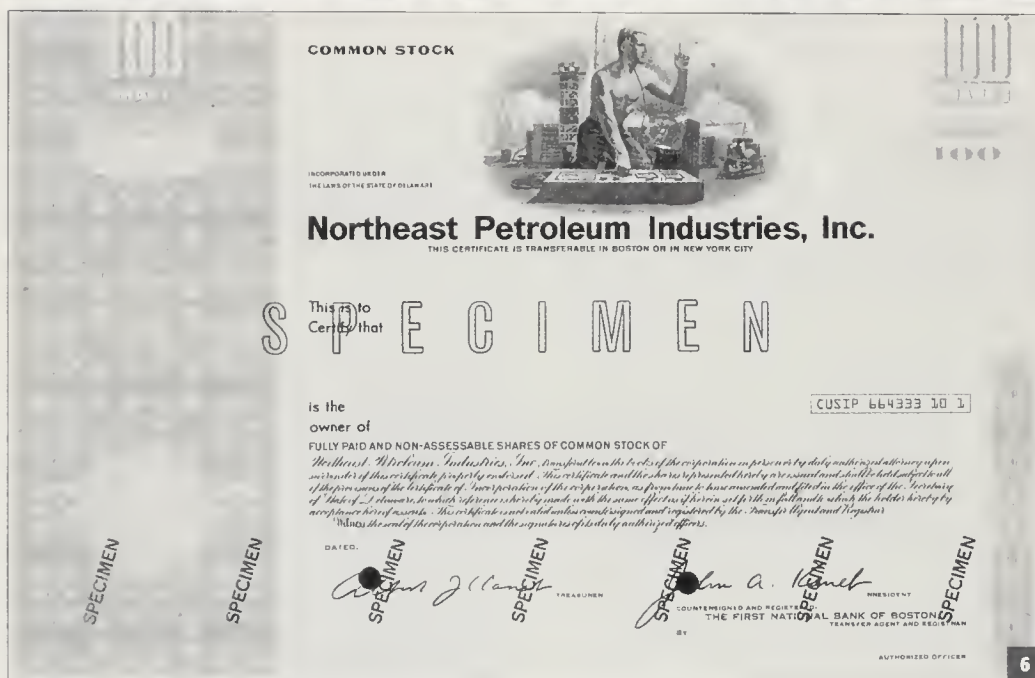


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4

1. Painting by Carlson, *Electronic Series No. 1*
2. First proof of *Electronic Series No. 1*, engraving by Ken Guy
3. Intermediate proof of *Electronic Series No. 1*, engraving by Ken Guy
4. Finished proof of *Electronic Series No. 1*, engraving by Ken Guy

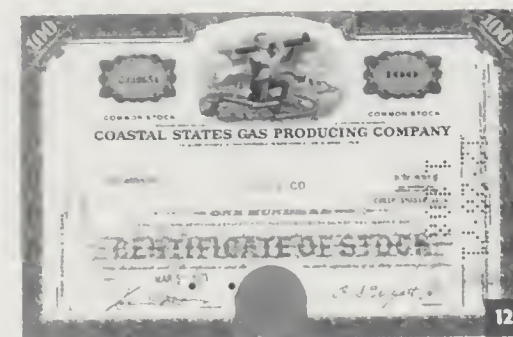


Electronic Series #2, showing a man kneeling before a field radio, wearing headphones, and holding up his left index finger to form the center of an atom. In the back are various telecommunications-related structures, and the requisite rocket being launched, creating massive clouds of smoke. William F. Ford, the head of picture engraving at ABN, engraved this vignette in 1960. It was probably one of the last engravings Ford did at ABN, as he retired in 1960 after heading the department since 1940 and working as an engraver at American since 1912. A finished proof in the author's collection carries an interesting notation: "Not to be used on NYSE Accounts—per PDK [Peter D. Kimball] 12/11/78." After the vignette was used on a number of certificates, such as Northeast Petroleum Industries (Fig. 6), Harris Corporation, Fuqua Industries, Arrow Electronics, Loral, and others, the NYSE probably complained about the fact that the figure is not facing forward, showing most of his face, as required by the Exchange. The requirement derived from the fact that the human face is the hardest part of a vignette to engrave—and thus the hardest to forge. The 1978 notation meant that no additional NYSE-listed companies could use the vignette.

5. International Telephone & Telegraph Corporation stock certificate, specimen, 1976
6. Northeast Petroleum Industries, Inc. stock certificate, specimen, 1972, with Electronic Series No. 2, engraving by William Ford
7. Painting for Electronic Series No. 3
8. Early progress proof of Electronic Series No. 3, engraving by John Hay. Note lower (left) hand

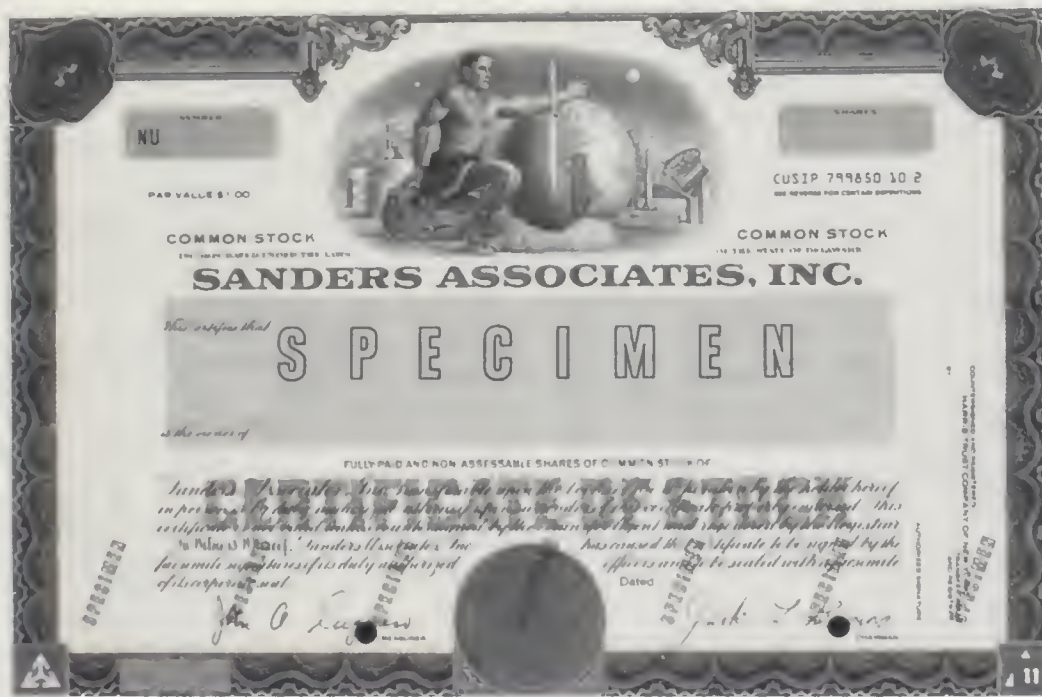


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Hay also engraved the fourth vignette in the “Carlson Electronic Series” in 1961. The image is a seated male, with a desert/mountain rocket range and the world in the background, and a rocket blasting off in the center in front of the man’s outstretched left arm. The vignette was used by several companies, including Sanders Associates (Fig. 11), Twin Industries, Eitel-McCullough, Litton Industries, Lear Siegler, and Lamson & Sessions.

Today, the Carlson Electronic Series of vignettes are reminders of the original space race, products of the late 1950s and early 1960s. They met ABN’s need for images to satisfy the growing number of electronic and space-related companies, and served ABN well. Some are probably still in use today. Electronics remain a crucial and major American industry, and space/rockets are an important part of America’s research efforts, although they have lost their novelty.



The third Carlson painting, Electronic Series #3 (Fig. 7) has a rocket as the central subject and is amusingly suggestive. This vignette was engraved by John Hay (1908–1989), a Canadian who trained at Canadian Bank Note in Ottawa and came to New York to engrave for ABN, Canadian Bank Note’s parent, in 1946. Fig. 8 shows an early progressive proof of the engraving, and Fig. 9 illustrates an interesting occurrence, the alteration of the vignette. Apparently, someone at ABN did not like the way the lower hand on the rocket looked, and asked Hay to redo it. Changing a

vignette at this stage involves “pounding up” the die from the back in the area to be redone, which flattens the surface and removes the cuts in the steel, thus allowing the engraver to re-engrave the hand. Fig. 9 shows the hand redone (notice the lightness around the area, as re-cutting has just been started). While not as popular as its predecessors, Electronic Series #3 was used on some stock certificates, including Richardson Electronics (Fig. 10), Conduction Corporation, and Avnet Electronics. The vignette was also used on a U.S. Postal Panel, for the Pioneer satellite stamp, in 1975.

9. Progress proof of Electronic Series No. 3 with left hand redone
10. Richardson Electronics, Ltd. stock certificate, specimen, 1983
11. Sanders Associates, Inc. stock certificate, specimen, 1985
12. Coastal States Gas Producing Co. stock certificate, 1971

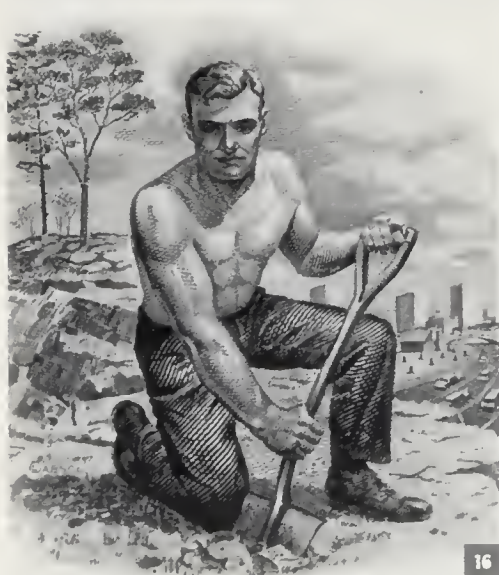
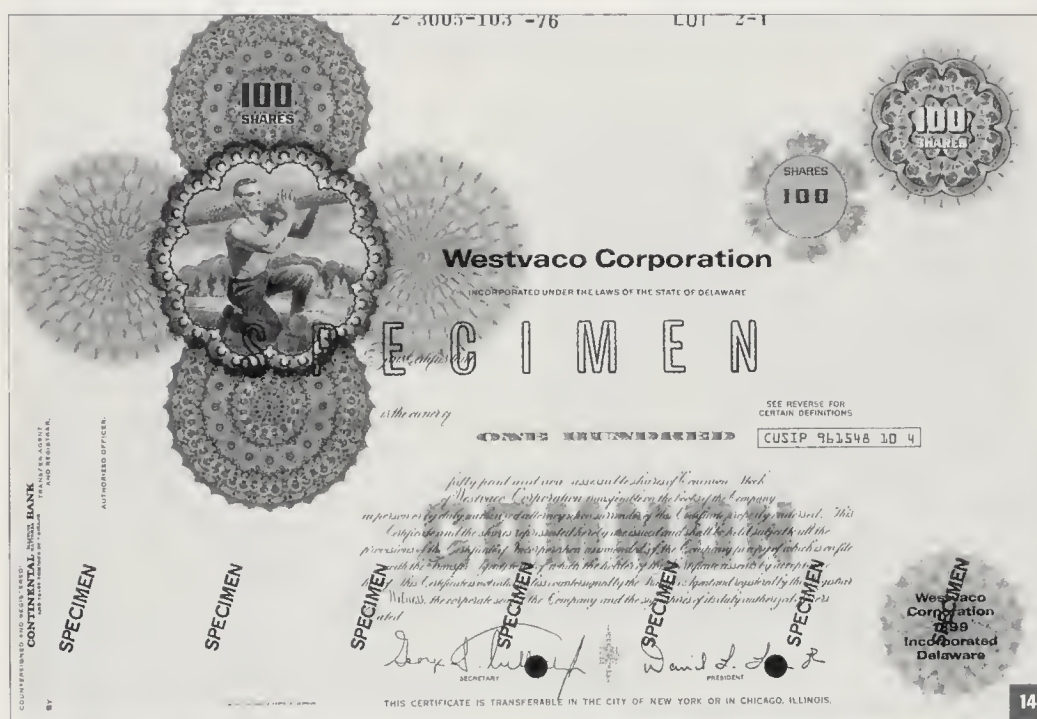


Because of the success that ABN had with Carlson's initial Electronic Series, they asked him to develop other industrial vignettes, and he produced another painting, Pipeline Series No. 1, in 1960. It was engraved by Leo Kauffmann⁴ and Joseph Keller.⁵ Kauffmann did the figure (which is mostly "cutting"), and Keller did the etching. This Pipeline Series vignette was used by several companies, including Coastal States Gas Producing Co. (Fig. 12), Atlanta Gas Light, Cabot Oil and Gas, and others.

Pipeline Series No. 1 had some interesting reincarnations. In 1964, Texas Industries requested a special vignette using the figure, but with a different background. ABN had Orison MacPherson do a special drawing, in charcoal, for them, and Ken Guy engraved the vignette with the original figure "laid down,"⁶ now holding a metal beam instead of a pipe (Fig. 13).

Another version of Pipeline Series No. 1 was done in 1966 by Joseph Keller, for Westvaco Incorporated (Fig. 14). Here the figure is holding a log, with a forest background. The certificate was one of the early "non-traditional" certificates produced by ABN, disposing of the standard picture frame border in favor of some more interesting graphic design.

The record of Carlson's work at ABN also includes two other paintings, one of a man kneeling, holding a shovel (Fig. 15), engraved by John Hay in 1960. The other painting has a similar figure holding a jackhammer (Fig. 16), engraved by Ed Cranz in 1961. Neither of these vignettes appears to have been used on NYSE-listed certificates, but one may have been used on a non-listed issue.



13. Proof of special vignette for Texas Industries Inc. stock certificate
14. Westvaco Corporation stock certificate, specimen, 1976
15. Proof vignette of man kneeling with shovel, artwork by Carlson, engraving by Hay
16. Proof vignette of man kneeling with jackhammer, artwork by Carlson, engraving by Cranz

They are smaller paintings, not quite as suitable for the main vignette on a stock certificate, and that may be the reason why they did not see much use.

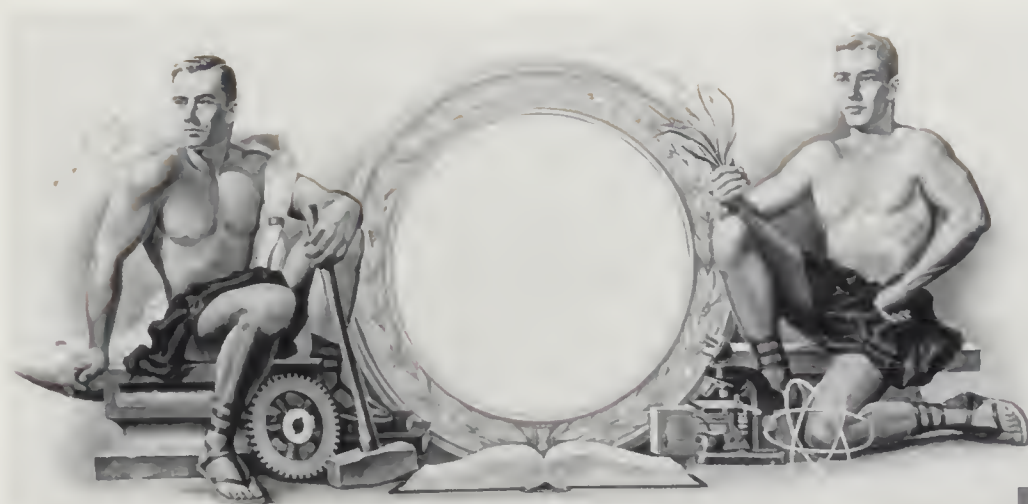
While his ABN work is finished, Carlson has not quite completed his bank note art career yet. When John Wallace left ABN in January 1960, he started to do freelance work for E. A. Wright Bank Note Co., and suggested that they use Carlson for vignette art. At least one painting resulted (Fig. 17), and John Wallace engraved that image for E.A. Wright. It was used on the Woodward Co. stock certificate (Fig. 18).

S. Ohrvel Carlson has had a long and distinguished career as both an artist and a musician. But probably the most unusual part of his art career was to bring the American Bank Note into the space age. **TH**

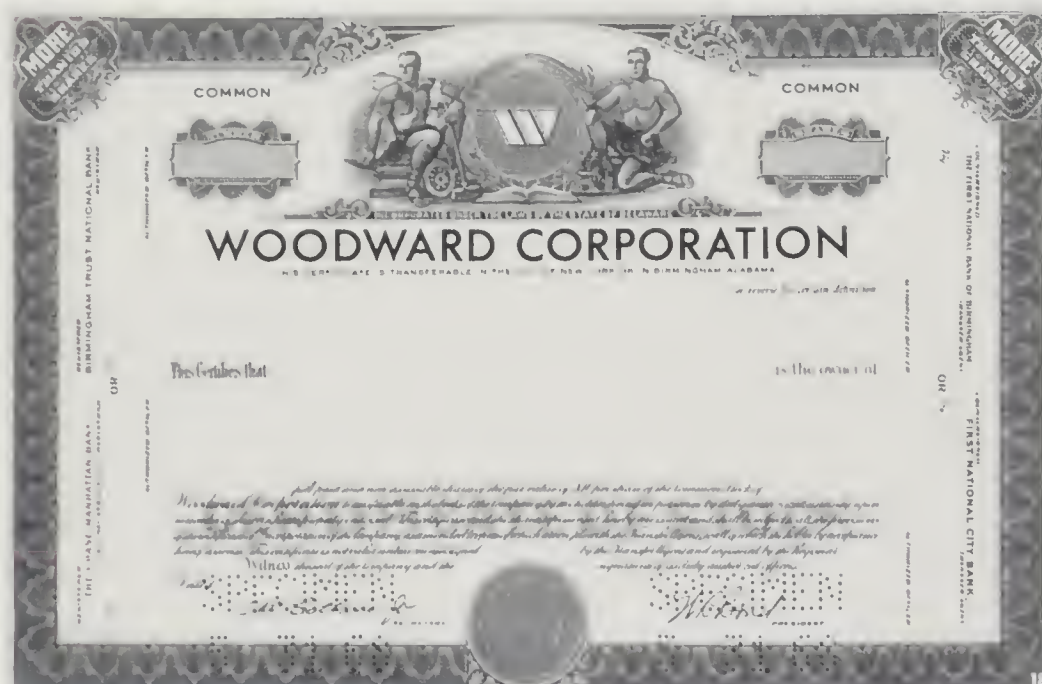
Mark Tomasko is a collector, writer, and researcher on bank note engraving, with a specific interest in documenting the engravers, artists, and bank note companies. He is Honorary Curator of Engraving at the Museum, and has curated several exhibits there, including the exhibit for the 200th Anniversary of American Bank Note in 1995. Article copyright Mark Tomasko, all rights reserved.

Notes

1. For information about John Wallace's engraving career, see "A Review of the Work of John Wallace" by Mark Tomasko in *Paper Money*, July/August 1997.
2. For information about Ken Guy's engraving career, see "A Review of the Work of Kenneth Guy," by Mark Tomasko, in *Paper Money*, March/April 1995.
3. In the United States tradition, picture engraving work was done with two techniques, "cutting" and etching. Human fleshwork and drapery (clothing) was cut with a graver directly into the steel die, and everything else—scenery, buildings, animals, trains, ships, objects—was etched. Etching is



17



18

done by putting a transparent asphaltum ground on the die, and after it hardens, using an etching point to cut through the ground in the dot and line pattern desired, thereby exposing the steel in such places. Acid is then applied to the die, which eats into the steel where the dots and lines have been made in the ground.

4. For information about Leo Kauffmann's engraving career, see "A Review of the Work of Leo C. Kauffmann," by Mark Tomasko, in *Paper Money*, November/December 1998.
5. For information about Joe Keller's engraving career, see "Joseph Keller, Engraver," by Gene Hessler in *Paper Money*, November/December 1988.

6. The process of altering a vignette was described in an article in *Bank Note Reporter*, June 2000, entitled "Vignette Alteration Involves Several Steps," by Mark Tomasko.

Sources

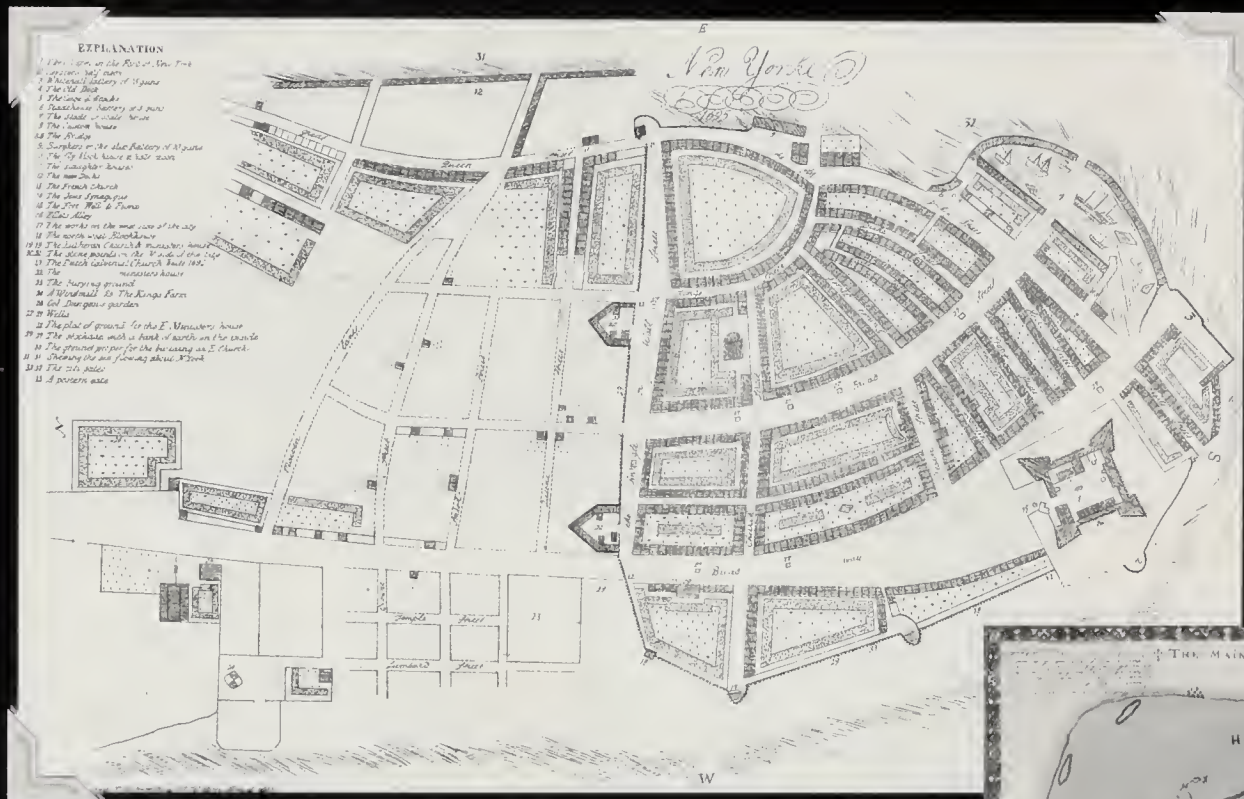
Engraving records in the author's collection and conversations with S. Ohrvel Carlson, John Wallace and Ken Guy. The author is grateful to these individuals for their assistance, and also to Mrs. Ruth Wilson for her help in locating Mr. Carlson. All illustrations are from the author's collection.

17. Painting by Carlson for E. A. Wright Bank Note Co.
18. Woodward Corporation stock certificate by Federated Banknote Co. (successor to E.A. Wright)

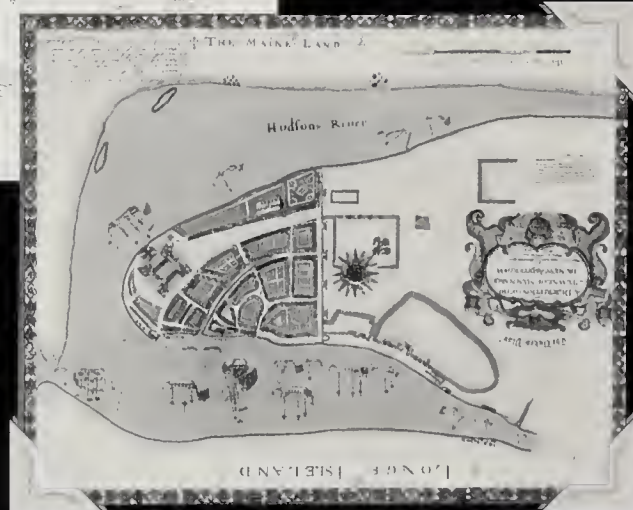
TRADING CENTER of the NEW WORLD

A photo essay on four centuries of innovation and entrepreneurship in lower Manhattan, on the one-year anniversary of the terrorist attacks of September 11, 2001.

From the time of the Dutch settlement of "New Amsterdam" in the 1600s through the mid-20th century, the environs where Wall Street meets Broadway have been a center of commerce, entrepreneurship, and capitalism. On these streets, a stock market founded under a buttonwood tree in 1792 evolved into the world's most famous exchange.



Map of New York in 1695 from Valentine's Manual, 1851



Dutch map of New York, 1664



*Second known view
of New Amsterdam*



Old Federal Hall, Trinity Church, and Wall Street in 1789



Wall Street and Trinity Church, looking westward from William Street, c. early 1800s



New York in 1816, engraved for Valentine's Manual



Oldest known photograph of Wall Street, c. 1865



View of lower Manhattan from Brooklyn, 1896



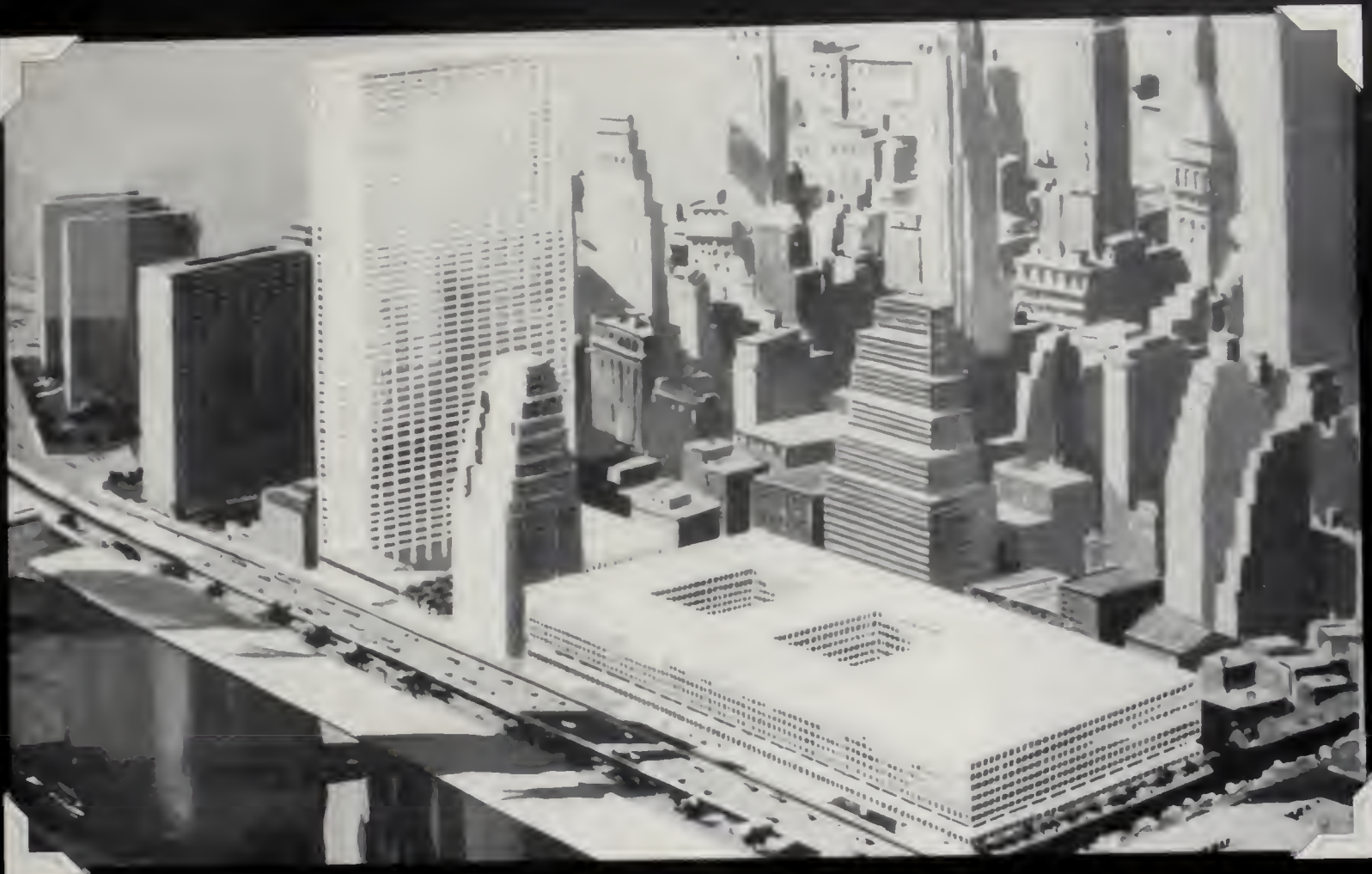
Skyline of lower Manhattan from Governor's Island, 1898



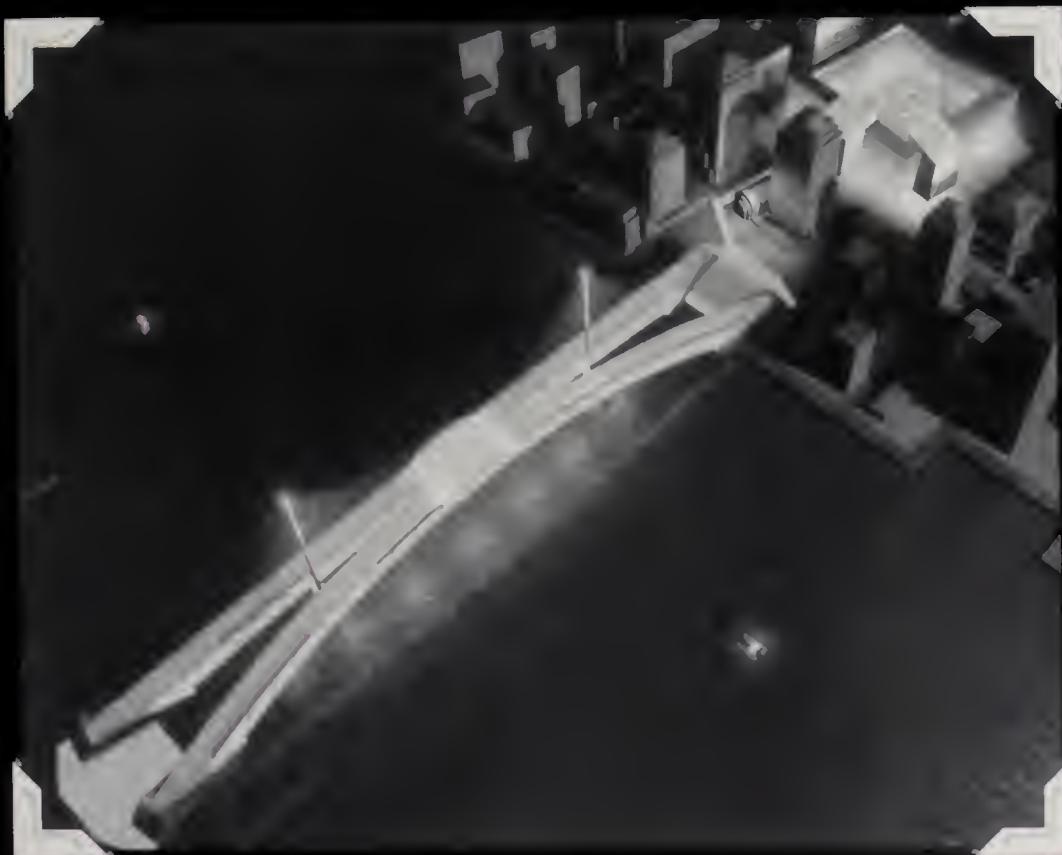
The Woolworth Building, as photographed for King's Views of New York. Constructed in 1910, this building, at 55 stories, was the tallest building in the world.



Skyscrapers of lower Manhattan, as pictured in King's Views of New York, 1911



Architect's view of the proposed World Trade Center, c. 1960s



*"The World Forum and the World Bridge" by Eytan Kaufman from the exhibit
"A New World Trade Center: Design Proposals" at the Max Protech Gallery*

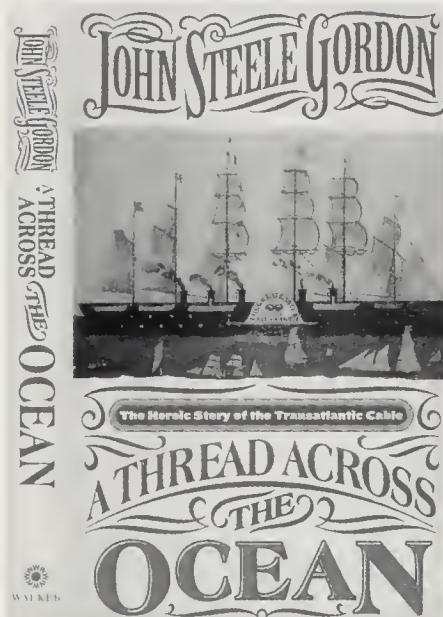
In the early 1900s, New York's first skyscrapers sprouted up along this lower stretch of Broadway, America's cultural main street. Here were headquartered the companies which transformed America into a modern economic giant. Today, Wall Street's intersection with the mainstream is complete: the world's financial capital is linked in real time to a global 24-hour marketplace.

A Thread Across The Ocean: The Heroic Story of the Transatlantic Cable

By John Steele Gordon

Walker & Co., 2002, 240 pp, \$26

Reviewed by Gregory D.L. Morris



TO THE FREQUENT DISMAY OF HIS READERS, the covers of John Steele Gordon's books are usually too close together. Not everyone may feel that way about *The Scarlet Woman Of Wall Street*, which relates in extensive detail the manipulations of the Erie Railroad, but both *Hamilton's Blessing*, an innovative and lively account of the national debt, and *The Great Game*, a history of Wall Street that was made into a CNBC feature, left his fans wanting more.

The Business of America collected his best columns from *American Heritage* magazine, but those who read them in the original issues of the magazine had to wait until *A Thread Across The Ocean* was published in June for real new material. And Gordon did not disappoint, although physically the book is small, almost delicate, and while the maps are plentiful and

clear, the other illustrations are too small and too dark.

But what it lacks in size it makes up in substance, timeliness, and relevance. The pattern of the book is set in a two-page foreword, "A Note On Money." Relevant digressions and extensive footnotes abound. In them we meet Peter Cooper, Judah P. Benjamin, George Peabody, George Villier Lord Clarendon, Charles Bright, and Isambard Kingdom Brunel—fascinating and influential persons all—and learn a bit about vegetable dyes, gutta-percha, and the variable speed of light. Gordon seems to be floating trial balloons for future books. If so, the sooner the better.

Which is not to say that he does not cover the topic at hand. The project to lay the first transatlantic cable itself moved in fits and starts, and like other audacious engineering and technological efforts, it strained the limits of both the science and the finance of its age. The effort was the brainchild of Cyrus Field, a man who should be recalled today alongside Morse and Marconi—and if *Thread* is as well read as it should be, Field may yet gain his proper place in the Pantheon.

Born in 1819, in Stockbridge, MA, Cyrus Field came of age in the incipient New York City that was made rich by the Erie Canal in 1825 and devastated by a great fire in 1835. An early archetype of the entrepreneur, he built several successful businesses and then restlessly searched for other worthy pursuits. After accompanying Hudson River School painter

Fredrick Church on his expedition to South America, Field was introduced by his brother Matthew to a colleague, Canadian engineer Fredrick Gisborne.

Telegraphy was in its adolescence. There were connections among most of the major cities in the U.S. and Canada, but Gisborne was involved in a project to run a submarine telegraph to Newfoundland. At the time it was not yet a province, but a remote and inhospitable Crown Colony. It was also a full day's sailing closer to Europe than was Halifax, the northeasternmost telegraph station.

Gordon writes, "But after his brother and Gisborne left, Field looked at the globe in his library. He suddenly realized that if a submarine cable could be laid across the Atlantic from Ireland to Newfoundland, the time needed for news to cross the ocean would be shortened not by a couple of days but by a couple of weeks. This was a different matter to say the least."

Field threw his life, his fortune, and his sacred honor into the project, and by any means possible cajoled most of the leading lights of engineering, science, and high finance into participating—at least in the first venture. We know now that successful cables were laid, so it is not giving anything away to say that it took four attempts.

The first started in 1857 in a haste of raw enthusiasm and overweening optimism. It failed. The second in the next year was successful, briefly. A message from Queen Victoria to President Buchanan was relayed August 16.

TRIVIA QUIZ

How much do you know about financial history?

By Bob Shabazian

But the cable failed within weeks. The American Civil War delayed subsequent efforts until 1865 and 1866, when a permanent link was established.

The tale is well told, but beyond the historical details two overarching themes emerge, both of them enlightening and refreshing: the integrity and optimism of Cyrus Field, and the foresight and globalism of the British, rather than the Americans—save Field and his cohorts.

Twice in his career Field's companies were insolvent, and twice he settled with all of his creditors for pennies on the dollar. And both times, when he had later made sufficient money, he went back and made every creditor whole, even though they had discharged his debts. In the same spirit, no sooner had the 1866 cable been completed and put into commercial service, but the fleet went back to sea to fish up the 1865 cable and complete it.

This is what Fiorello LaGuardia meant when he called for "patience and fortitude." And it is precisely the lack of such character in many business leaders today that has led to the egregious messes at Enron, WorldCom, and the rest. Gordon does not preach, but in his pages there is a clear admiration for men of vision, courage, and honor.

The other revelation in *Thread* is the role of London financiers and Her Majesty's government in creating a global economy. Capital for the first attempt was raised in both the U.S. and the U.K., and both the U.S. Navy and the Royal Navy provided ships and support. But many American backers bugged out after the first failure, and attempts two, three, and four were almost exclusively British backed and executed.

Gordon writes, "Back in the United States after yet another ten-day voyage, Field traveled widely trying to interest investors...They listened with attention...There was no mistaking the interest they felt...They passed a series of resolutions in which they applauded the project...But not a man subscribed a dollar....He did better in England, where the need for an Atlantic cable was more obvious and where the technology was more familiar."

Imagine that: the Brits, not the Americans, more familiar with technology and more eager and active in promoting global trade. In the interest of full disclosure, Gordon is a gloriously unreconstructed Hamiltonian, and by extension an anglophile. But in this age of American economic hegemony, it is refreshing and instructive to recall that it was not always so—and by implication need not always be. **FH**

1. On October 1, 1877, what government agency became the sole maker of U.S. currency?
2. What invention played a central role in the emergence of Wall Street as the nation's leading financial center in the 1840s?
3. Which airline boasts the following series of industry firsts: transatlantic flights with sleepers, introduction of air hostesses, non-smoking sections, in-flight entertainment (with radios in the 1930s and movies in 1961)?
4. Who invented the first successful quotation device in 1866?
5. Phillips Petroleum Co. and Conoco recently announced a merger deal that will create the nation's third largest integrated oil company. What mergers created the two largest companies in the industry?
6. When did the NYSE record its first one million share day?
7. In early financial history, what are sisters Victoria Woodhull and Tennessee Claflin noted for?
8. Why was trading on the NYSE delayed 45 minutes on January 24, 1925?
9. What was unique about the nation's first silver coins?
10. What association did the Maloney Act create in 1938?

1. The Bureau of Engraving and Printing
2. The first commercial telegraph line connecting Philadelphia and New York in 1844
3. TransWorld Airlines
4. S.S. Laws, a vice president of the New York Gold Exchange
5. Exxon and Mobil in 1999 and Chevron and Texaco in 2001
6. On December 15, 1886, volume reached 1.2 million shares
7. They established Wall Street's first female-owned brokerage
8. Members were allowed to view a total eclipse of the sun
9. They were minted from Martha Washington's silver serving set
10. National Association of Securities Dealers

ANSWERS:

Will the Recording Industry Turn a Deaf Ear... Again?

continued from page 11



easily mass-duplicated while cylinders were still being recorded one at a time. Berliner called his disc phonograph the gramophone. Unfortunately, luck was not with Berliner, and after a controversial court ruling, he was forced to sell his American rights to Eldridge Johnson. Johnson, Berliner's former manufacturer, was also the developer of a reliable spring motor for Berliner's Gramophones. In 1901, Johnson organized the Victor Talking Machine Company and began manufacturing and selling Victor disc phonographs based on Berliner's features.

For the next 20 years, the Edison, Graphophone, and Victor companies controlled the industry through a variety of clever marketing methods, product refinements, and most importantly manipulation of the legal system. All three firms maintained large legal staffs that quickly overwhelmed any potential competitor with expensive, time-consuming litigation. Each firm jealously guarded its markets, and as the industry matured, the spirit of innovation that created the market gave way to an emphasis on profit margins and manufacturing efficiencies.

Each firm had its own company culture and set of problems. For

instance Edison, though profoundly deaf and possessing a musical taste that has been kindly described as "common," insisted on approving most musical selections. Moreover, since he steadfastly refused to pay recording artists high fees, the elite musical performers of the day gravitated to Victor and Columbia. However, Edison's machines were well built and sturdy. The combination of sturdy construction, advertising campaigns aimed at the rural consumer, and musical selections that appealed to less sophisticated listeners made the Edison phonographs the choice of rural Americans.

Producers for Columbia scoured the globe for unique recordings. Every continent was visited, and thousands of recordings were made. These recordings appealed to Americans starved for knowledge of the outside world. The Graphophone was a more elaborate-appearing machine, although less ruggedly constructed and was popular among more educated urban listeners. The surviving Columbia Graphophones are noted for their intricate moldings and nickel-plated hardware.

The Victor Company under Eldridge Johnson's astute business stewardship grew to be a powerhouse in the first two decades of the new century. Victor appealed primarily to city dwellers and signed the most prominent recording artists. Enrico Caruso was the first recording megastar and, 90 years later, his records are still highly prized by collectors. As American tastes changed, the phonograph companies changed the appearance of their products to match their customer's sense of style. Most notably, in 1906, Victor debuted the Victrola, a phonograph with an internal horn. Very few external horn machines were produced after 1910. World War I

brought shortages of raw materials and a decline in purchasing power, but the phonograph companies still managed to survive and prosper.

Although these companies were quite willing to change the appearance of their machines, the basic underlying technology changed very little. Each company was painfully slow to respond to the emergence of new technologies for recording and distributing sound. Within 10 years of the development of electrical recording and low cost radio receivers, the longtime market leaders were no longer viable. Columbia was forced to undergo a bankruptcy and reorganization in 1924, and in 1926, Victor sold out to the Radio Corporation of America (RCA). In 1929, the venerable Edison Phonograph Company abandoned its music and home phonograph businesses, keeping only its business transcription phonographs. Thus, the age of acoustic recording ended with the collapse of the three firms that had nurtured and grown it.

Now, let's fast-forward through the subsequent years of vinyl records, 8-track tapes, cassettes, and compact discs. Each new sound storage technology made the previous version obsolete. Radio has survived primarily by virtue of its advertising-based business model. The music is free to listen to as long as the listener is willing to suffer through the many commercials. Today's large recording companies are immensely profitable and just as protective of their business model as were the early phonograph companies.

In 1999, a century after the recording industry was formed and with the Internet boom in full bloom, Shawn Fanning, a 19-year-old college student, introduced what might eventually be seen as the next major shift in the music business. Fanning's Napster

EVENTS CALENDAR

SUMMER/FALL 2002

AUGUST

- 20 Discover Downtown Walking Tour, co-sponsored by the Museum and the South Street Seaport. Learn the extraordinary story of lower Manhattan's development from a small Dutch settlement to the world's financial capital. Meets at Museum gallery, 28 Broadway, NYC, 1–3 pm. \$15/\$12 members, seniors, and students. 212-908-4697.

SEPTEMBER

- 14-15 R.M. Smythe & Co. Currency and Stock & Bond Show and Auction, Strasburg, PA. 800-622-1880.
- 18 "Pioneering Business: Lessons and reflections from Wells Fargo's history." Museum gallery, 28 Broadway, NYC, 12–1 p.m. Free.
- 18 "Born in New York" exhibit closes.

OCTOBER

- 1 "High Notes," an exhibit of high denomination currency, opens.
- 15 Reception and curator's tour of "High Notes" with former U.S. Treasurer Mary Ellen Withrow. Museum gallery, 28 Broadway, NYC, 4–7 p.m. Free.

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allowed people to freely share recorded music. The underlying technology used a technique called peer-to-peer computing. Napster servers kept track of who had what, but the actual music remained on the original user's computer until it was copied directly to the computer of the Napster user who wanted a copy of the song.

Of course, record companies and recording artists were not pleased by the potential loss in revenue and royalties that the widespread copying by Napster users portended. Representatives of the record industry sued Napster, and the court issued a decision in favor of the industry. Though Napster was forced to work with the industry on a version that would compensate record companies and artists, the question remains

whether the judgment against Napster will really end the use of the Internet to freely distribute music. New music sharing software has already emerged, and while the established music business is clearly determined to silence these innovative entrepreneurs, history would suggest that record industry executives might better focus on evolving their business model in light of these new realities. **FH**

Dr. Dan Cooper is the president of Active Learning Technologies. Brian Grinder is a member of Financial History's editorial board and a professor at Eastern Washington University.

Notes

1. Conot, Robert. *A Streak of Luck: The Life & Legend of Thomas Alva Edison*. Seaview Books, 1979.

2. There is some debate on whether the first recorded sounds were from the nursery rhyme, but Edison himself put this debate to rest with a letter dated August 1918 to the West Orange Library in which he stated for the record that these were indeed the first recorded words. Walter L. Welch and Leah Broderick Stenzel Burt. *From Tinfoil To Stereo: The Acoustic Years of the Recording Industry 1877–1929*. The University Press of Florida, 1994.

3. Hazeltorn, Howard. *Columbia Phonograph Companion Volume I: Hazeltorn's Guide to the Columbia Cylinder Graphophone*. Mulholland Press, 1999.

4. Baumbach, Robert W. *Look for the Dog: An Illustrated Guide to Victor Talking Machines*. Mulholland Press, Sixth Printing, 1999.

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